GLOBAL ADVANTAGE NATIONAL BASES OF INTERNATIONAL COMPETITIVE STRATEGY

BY

LANCE ELIOT BROUTHERS

A DISSERTATION TO THE GRADUATE SCHOOL
OF THE UNIVERSITY OF FLORIDA IN PARTIAL FULFILLMENT
OF THE REQUIREMENTS FOR THE DEGREE OF
DOCTOR OF PHILOSOPHY

UNIVERSITY OF FLORIDA

1992

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Lance Eliot Brouthers

ACKNOWLEDGEMENTS

No dissertation is the product of just one person. This dissertation is no exception. I would therefore like to take the time to thank those responsible.

First, thanks are extended to my committee. I thank Bart Weitz for encouraging me to "make up my own theory," and then offering helpful suggestions at each stage of theory development. I also thank Kalyan Raman for helping me think more clearly about growth versus profit maximization and providing the term "high risk" to describe the uncertain leverage category. Thanks are also extended to Elias Dinopoulos who tried to teach me the international trade literature. I hope that one day my grasp of it will be as good as his. The most thanks must go to Alan Sawyer. Alan's careful attention to detail really helped to improve the research and his prompt turnarounds allowed me to finish quite rapidly. Alan is without a doubt the unsung hero in this process.

Second, I must thank John Lynch for help on the methods and design. Fortunately, my weakness is John's strength and one which he freely offers. I am also thankful to Joe Alba, my "graduate advisor," and the rest of the University of Florida faculty who provided me with a first rate education both in and out of the classroom. I felt that I was extremely well prepared to become a member of the TCU business faculty.

My gratitude also goes to my new colleagues at TCU. Dave Finn, Chuck Lamb, Shannon Shipp and Bob Greer for helpful input and for making me feel at home. I am especially thankful to Dave Cravens who has continued the mentoring process begun at UF, offering sage advice and career guidance.

and to my chair Bill Moncrief who has played an instrumental role in facilitating my successful transition to TCU

Lastly I am extremely thankful to my friends and family who provided emotional support and encouragement throughout my graduate career I am thankful to Julie and Marty without whom there would be no dissertation at all

PREFACE

Successful marketing strategies develop/identify unique bases of sustainable competitive advantage and exploit these advantages in defendable product markets Considerable research has been done in the emerging strategy field and has identified a number of promising avenues Generic strategies (cost differentiation) have been identified (Porter 1980) and the role that industry structure plays in generating various strategies (or strategic groups) has been discussed (Porter 1985 1979) as well as the very recent "strategic fit" literature (the synergy between a firm's strategy and its environment) Each of these approaches offers insights into how firms can construct and maintain competitive advantages

However, the bulk of this work has focused on domestic competition, with particular emphasis on American domestic competition This limitation calls into question the generalizability of the research in at least two ways First there is the traditional question of external validity Do these findings (theories) extend to other countries and/or industries? Much more important is the notion that competition in a growing number of industries is becoming global in nature The implicit assumption in extending these domestic models to a globally competitive industry is that nothing fundamentally changes when firms shift from domestic to global market competition It is assumed that there are no unique bases of competitive advantages at the international level that do not also manifest themselves at the national and/or regional level (Keegan 1989 Kobrin 1982)

This assumption has been called into question by a number of economists who argue that such things as (1) strategic trade policy and/or (2) national industrial policies can provide a unique basis of advantage for a nation's firm Thus politics more specifically public policy can differentiate domestic from international patterns of competition Public policies can impede or enhance global competitiveness

However such public policies are generally perceived as being "market distorting " That is they convey advantage in a way that is likely to reduce global welfare Such policies generally result over the long run in less variety and quality for the consumer at higher prices and less profitability and sales growth for the firm Thus such government interventions are generally seen as being undesirable

In this dissertation I plan to present and test an explanation of how a third set of public policies also influence the pattern of global competition Certain domestic public policies determine the nature and structure of national capital and labor markets It will be argued here that these differentiated capital and labor markets can provide a basis for unique international business strategies not easily replicated by firms based in other countries These unique strategies provide a method by which firms can defend themselves from foreign competition as well as enhance their own global competitiveness

How do public policies concerning national capital and labor market provide a basis for unique strategies? It will be argued in this dissertation that these public policy configurations have two influences on home country firms: 1) they influence the firms' capital and/or labor intensity relative to foreign competitors, and 2) they also influence the goal orientation for the firm, whether the firm is short term or long run oriented and whether a firm seeks to maximize growth or profitability. It will be argued that relative strength in capital and/or labor intensity conveys an advantage to firms in such industries where it is beneficial to be capital and/or labor intensive. Similarly, goal orientations tend to be compatible with certain types of industries. Some industries are extremely short run oriented (such as fashion perhaps), others are long run oriented. It is this confluence between an industry's structure and a nation's public policies which can provide a basis for sustainable competitive advantage relative to foreign competition. This is the basic proposition presented here. Based on this reasoning, "strategic fits" between a nation's public policies and an industry's structure yield superior global performance for a firm vis a vis its foreign competition.

In contrast, previous international business scholarship on the determinants of firm performance has concluded that firm performance is incremental in nature. Past profitability and/or past growth is the best predictor of current profitability and/or growth (Heer, 1989). Additionally, a number of studies have shown that there sometimes appears to be significant differences in profitability between nations' firms (Lee and Blevins, 1990) as well as different rates of performance between industries (Heer, 1989). However, what is lacking is an explanation of why these results occur. Under what conditions can a nation's firms achieve superior international performance? As Ricks, Toyne and Martinez (1990) state, "Even though many industries have been studied, ... generalization has been difficult The future challenge may be [illegible] patterns and strategies " (1990 p 232)

This sentiment is echoed by Kim and Lyn [illegible] who investigated the performance of foreign firms operating in the U S They suggested in their conclusion that "   the motivations for investing in the U S market may differ by country of origin Therefore it is hard to name a unifying theory to encompass all motivations behind FDI (Foreign Direct Investment) inflows into the United States Further investigation into the differences in the performance of foreign owned firms and U S owned firms is warranted Industry effects and possible unique banking relationships enjoyed by foreign owned firms in their home countries also deserve further exploration to determine if they are likely to have significant implications for firm performance " (1990 p 52)

Thus there are currently no overarching theories to account for the myriad results being observed in the contemporary international business environment This dissertation represents an initial attempt to remedy this by presenting and testing an integrative framework one which purports to explain how industry structure and home country public policies concerning home capital and labor markets interact to produce superior global performance

Chapter 1 provides an introduction to the field of international business strategy In it 1) major theories of trade and investment are discussed comparative advantage product trade cycle Leontiff's paradox and the Heckshar-Olin model 2) a brief history of international patterns of business expansion is given and 3) a case is made for the important role that politics plays in the development of patterns of [illegible] in international business competition

The second chapter attempts to answer four questions [illegible] international marketing strategy formulation? How does it differ from domestic marketing strategy? How has the field of international marketing sought to differentiate itself from domestic marketing? How should it do so in the future?

The third chapter presents the theory, the propositional framework as well as a set of propositions to be tested. The theory lays out in great detail four possible types of economies which are derived as a consequence of controlling (or not regulating) national capital and/or labor markets: production driven, market command and industrial democracies. How these economy influences create synergies or "strategic fits" with certain ideal industry structures is explained and propositions are generated. Lastly, Porter's model of intra industry competition (leader, challenger, niche) is added as a possible "third layer" economy type and industry structure being the first two. Thus, what is being proposed is a 3 (economy type) by 3 (industry structure) by 3 (relative industry position) interactive model with the world's most successful firms being those whose home country economic public policies, industry structure and relative industry position provide an ideal strategic fit.

The fourth chapter describes the hypotheses which were tested, the methodologies employed, and the measures which were used. The hypotheses were derived from the propositions presented in Chapter 3. In the first section of the chapter, the data collection procedure is described including a discussion of variable choices and categories. In the second [illegible] chapter [illegible] Chapter [illegible] presented and explained In the third [illegible] chapter the research design is discussed Methodologies employed are discussed as well as the rationale underlying the research design

The fifth chapter is divided into three sections In the first section descriptive statistics are offered The descriptive statistics provide prima facie support for many of the core hypotheses In the second section repeated measures ANOVA is used to test the core hypotheses Main effects (of generic economy type and industry structure) and interaction (generic economy type by industry structure) effects are described and the GIFS framework is pitted against aspects of Porter s (1990s) framework The results are once again based on a repeated measures ANOVA In the third section the firm level hypotheses are tested using dummy variable pooled cross sectional time series analysis

The GIFS framework purports to provide an integrative theory which seeks to explain the behaviors of international manufacturing firms in the emerging global economy across industries and between countries in terms of the "strategic fit" between their home government s public policies concerning capital and labor markets the structure of the industries in which they operate and the firm s size relative to all its international and domestic competitors In the sixth chapter further interpretations of the results are provided within the context of the proposed framework and its underlying theory This section parallels the preceding chapter in its discussion -country level findings are discussed first, followed by discussions of country x industry structure findings and country by industry structure x firm strategy findings In the second section of this chapter limitations of [illegible] and suggestions for future research are offered In the final section I speculate about future prospects and challenges for Japan Europe America and the emerging global economy

Contribution

This project makes an original contribution to the area of international strategy formulation in at least seven different ways First Porter's (1990a) key hypothesis concerning the evolving nature of global business competition is tested

However the major contributions that this study make are to provide an overarching framework in which to (2) integrate previous findings in international strategy as well as (3) generate new predictions and insights into the rapidly changing emerging global marketplace Fourth this study attempts to demonstrate contributions that the disciplines of political science and history can make to enhance our understanding of the factors driving international patterns of trade and investment and to shift the emphasis in international strategy away from culture and economics which tend to dominate current thinking to a more balanced view which incorporates the disciplines of history sociology political science and public administration Fifth this paper presents an argument that in global strategy formation politics rather than culture is the key differentiating variable Sixth this paper describes a third role that politics plays in international business competition one which has not been discussed before in the business literature that of creator of differentiated capital/labor markets and firm goals both of which can provide a basis for sustainable competitive advantage vis a vis foreign competitors Finally if the data supports the GIFS framework a basis on which a new theory of comparative advantage can be constructed will have been provided one based on home country domestic public policies rather than on factor endowments

Thus the case is being made that politics is the key differentiating variable in international business strategy formulation It is being suggested that a nation s public policies exert an influence on what a firm s primary goal orientation will be as well as how capital/labor intensive that firm will be relative to its foreign competition I begin with a brief discussion of recent business history

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Abstract of Dissertation Presented to the Graduate School
of the University of Florida in Partial Fulfillment of the
Requirements for the Degree of Doctor of Philosophy

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By

LANCE ELIOT BROUTHERS

August 1992

Chairman: Alan Sawyer
Major Department: Marketing

Government politics such as (1) strategic trade policy and/or (2) national industrial policies can impede or enhance global competitiveness. Such public policies are generally perceived as being "market distorting," generally resulting over the long run in less variety and quality for the consumer at higher prices, and less profitability and sales growth for the firm. Thus, such government interventions are generally seen as undesirable.

In this paper I present an explanation of how a third set of public policies also influence the pattern of global competition. Certain domestic public policies determine the nature and structure of national capital and labor markets. It is argued that these differentiated capital and labor markets can provide a basis for unique international business strategies not easily replicated by firms based in other countries. These unique strategies provide a method by which firms can defend themselves

from foreign competition [illegible] global competitiveness

How do public policies concerning national capital and labor market provide a basis for unique strategies? It is argued that these public policy configurations have two influences of home country firms (1) they influence the firms' capital and labor intensities relative to foreign competitors and (2) they also influence the goal orientation for the firm whether the firm is short term or long term oriented and whether a firm seeks to maximize growth or profitability It is argued that relative strength in capital and/or labor intensity conveys an advantage to firms in such industries where it is beneficial to be capital and/or labor intensive Similarly goal orientations tend to be compatible with certain types of industries Some industries are extremely short run oriented (such as fashion perhaps) others are long run oriented It is this confluence between an industry's structure and a nation's public policies which can provide a basis for substantial competitive advantage, relative to foreign competition This is the basic proposition presented here Based on this reasoning "strategic fits" between a nation's public policies and an industry's structure yield superior global performance for a firm vis-a-vis its foreign competition

CHAPTER 1
INTRODUCTION

One global product One global market One global strategy If the 1980s were the decade of the internationalization of the American economy then the 1990s held the promise of being the decade of the globalization of the world economy Recent events such as those in Eastern Europe the renegotiation of the General Agreement on Tarrifs and Trade (GATT) the Canadian American trade agreement the softening of the Arab boycott and the reemergence of the Latin American Common Market coupled with anticipated changes such as Europe 1992 and an Asian Common Market suggest that the 1990s will produce a level of international economic growth trade and investment never before seen in human history American corporations are being provided with a golden opportunity for record levels of growth and profit

But if the opportunities are unprecedented so are the challenges Perhaps the greatest challenge facing American firms is international competition Foreign multidomestic and global firms have arisen in recent decades to challenge and overtake many American companies The success of competitors from such countries as Japan Taiwan and Korea have called into question much of what scholars thought they knew about the nature of competitive business strategy Well entrenched theories such as the product cycle theory which put companies based in advanced industrialized nations firmly and permanently in industry leadership positions have proven to be remarkably inept at predicting the [illegible] of international trade and investment which emerged in the 1980s.

Business History

One primary reason for the failure of international business research, particularly marketing research, to predict the changes in international business competition is its lack of awareness of business history and its relationship to the current state of affairs concerning the rise of global competition. In order to understand the current nature of international competition, it is useful to place the current situation in historical context.

Theories of strategic competition must, in part, be based on an understanding of the structure which undergirds it. For instance, in marketing, each of the four "Ps" contains a physical analog: advertising needs media (radio, TV, newspapers, magazines), price is dependent to some degree on costs, products need to be produced, and distribution (physical) is dependent on transportation availability (trucks, ships, planes, railroads, etc.), cost, and time. Lastly, communication and transportation systems also influence entry decisions (portfolio versus direct investment, for example) as well as span of control (accessible and rapid forms of communications and transportation facilitate larger span of control). These physical analogs represent limitations on the strategic options available to a firm as well as limiting growth and investment opportunities.

Viewed in this light, it is understandable why in America national firms did not begin to flourish until the 1890s (Leighton 1970). Until then very few economies of scale (as produced by [illegible] machines and assembly lines changed that) no significant national media existed (the Saturday Evening Post was perhaps the first American national media outlet and it did not begin to flourish until [illegible] and communication and transportation were slow and/or unreliable How ever the development of the telegraph railroad and subsequent telephone systems changed all that and by the early twentieth century many national firms existed Standard Oil Singer Gillette and NCR to name a few Not surprisingly these same firms were among the first to go interna tional Rapid improvements in infrastructure and manufacturing (Chandler 1962) in Europe and the USA led to the international expansion much in the same way that domestic improvements lead to national expansion strategies However, this first attempt at global expansion was short lived The rise of nationalism and protectionism which followed the first world war effectively ground global expansion to a dead halt Trade barriers such as Smoot Hawley in the USA effectively limited attempts by firms to develop global strategies The result? Firms like Ford developed multidomestic strategies (country centered strategies with decentralized control) European firms responded similarly establishing self contained and quite autonomous subsidiaries in many countries" (Porter 1986 p 43)

The above illustrates quite graphically the impact that policies can have on business strategy Protectionistic policies not only reduced world trade but altered the actual structure and output of the firms For instance prior to 1925 Ford produced all of its cars domestically By 1940 it was producing virtually no cars for export to Europe (Chandler

1962) Thus politics [illegible] the firm's structure as well as its output

The American Challenge Background

Following the second world war debate was reopened concerning the role politics should play in regulating international patterns of trade in the post-World War II period As Europe began its economic recovery, a conflict arose concerning the future direction of European American relations This conflict stemmed from two distinct and divergent ideologies the "Atlantic idea" and the European Idea "

The "Atlantic idea " primarily an American invention advocated the development of an Atlantic community This Atlantic Community would facilitate integration between America and Europe the resulting union being under American control (Cleveland 1966) Initially there was not much active or vocal European opposition to such a proposal The vehicle for integration and investment remained small and provided a temporary source of capital which was necessary if recovery was to be achieved quickly (Behrman 1970) Until the formation of the Common Market the annual increase in American direct investment in Europe remained small about 6% per year with most of the investments concentrated in the United Kingdom (Commerce Department 1972) In the years following the formation of the Common Market (1957) annual increases in American direct investment in Europe ranged from 26% per year to 44% per year (Commerce 1972 p 26) These rapid increases represented a radical shift in American corporate policy

The European Idea [illegible] a system in which European currency was promoted rather than [illegible] the United States (Swann, 1972). These advocates of this [illegible] desired limited American capital. Thus, when the common market was formed, European status was given to subsidiaries of American companies located in Europe, which exempted them from the external tariff structure (Swann, 1972, p. 72).

It therefore became more profitable for American MNCs to expand their overseas subsidiaries rather than export goods to Europe. As a result American direct investment in Europe increased drastically (Swann, 1972, p. 40-47). By 1970, the book value of direct American investment had risen over 600% (Commerce, 1972, p. 15). Thus, the result of the implementation of the Common Market was a dramatic increase in the American presence in Europe. Adopting the policies of the advocates of the "European Idea" had brought about a result entirely opposite from the expressed desire, a counter intuitive result. The formation of the Common Market provided a situation in which American direct investment grew exponentially. Instead of being a small and temporary aspect of the European economy, American MNCs in Europe were assuming a permanent and ever-increasing presence. This was a subject of great concern to some Europeans who feared that they were being "invaded" by America.

The American Challenge

This rapid rise in American direct investment gave rise to the theory of the American "invasion" of Europe. Numerous writers (European and American) claimed the American MNC with its vast resources posed a direct threat to the national autonomy of European [illegible] Williams [illegible] McCreery 1964 Servan-Schreiber 1968). The trends toward technological dependence, industrial dependence, and national economic planning dependence were all seen as political instruments aimed at placing Europe under American control.

Servan-Schreiber. In 1968 J. J. Servan-Schreiber's book *The American Challenge* appeared on the American scene. *The American Challenge's* primary contention was that American multinational corporations were rapidly moving into Europe and the rest of the world and encroaching upon the markets of the native firms. To Servan-Schreiber the net effect of not responding to this "American Challenge" would be the colonization of the world by America.

Surprisingly the book was widely reviewed and consistently well received by the American press. Liberals saw the book as a righteous condemnation of American neo-imperialism, while Conservatives saw the work as a tribute to the organization, flexibility, and management of American Enterprise. As a result, the book was highly praised and accepted as an explanation of the realities of the world economy (Shenker 1968, Samuelson 1968, Welsh 1968, Monahan 1968).

Servan-Schreiber's thesis consisted of two basic assertions. The first was that the ability of a corporation to concentrate capital and allocate it effectively is the most important factor in its ability to grow. According to this assertion a large firm can mobilize its resources more efficiently than a smaller firm. Hence, the larger firm which is more efficient should have a faster growth rate than a smaller one. It is efficiency that helps effect the undesirable aspects of large corporations i e their virtual control of markets [illegible] example of this trade off between size and efficiency was the Bell System Americans had been willing to grant a virtual monopoly in exchange for the efficiency derived It is this same principle which Servan-Schreiber used to justify the existence of giant corporations

The second assertion was that nation-states which did not create large MNCs would become colonies of these nations that did develop large MNCs This very real fear of Servan Schreiber's is logically deduced from the first assumption Because large corporations can allocate resources more efficiently than small companies small companies cannot successfully compete with large corporations The *reductio ad absurdum* of this argument suggests a world in which no small companies exist having been driven out of business by their larger and more efficient in this case American, competitors Since large corporations dominate the market nation-states that do not have their own large corporations will be at the mercy of those nation states that do The resulting situation would closely resemble colonialism

Mergers and Growth. The Non American Experience

With Servan-Schreiber spearheading the drive the European community promoted the consolidation of its smaller firms into corporate giants Generally three major reasons were given by the advocates of the merger movement

1 They met the American Challenge by providing Europe with equally large MNCs of her own (Servan Schreiber 1968)

Mergers allowed European firms to compete [illegible] the rapidly developing EEC (Stewart [illegible])

Mergers helped promote European integration [illegible] cooperation is possible across national borders (Sampson 1968)

Yet despite these advantages cited by the literature many argued that the European merger movement failed to materialize and gave a variety of reasons Stewart (1972) cited legal difficulties Stesio (1970) cited tax disincentives Mazzolini (1973) gave two additional reasons (1) managers wished to preserve their autonomy and perceived consolidation as a threat and (2) the concept of consolidation had not been given due consideration by corporate strategists and hence its potential were unrecognized Finally there was the spectre of "irrational nationalism" The charge was made that it was a fear of loss of national autonomy which prevented the anticipated merger movement from occurring (Servan Schreiber 1968)

Yet the European merger movement was much more extensive than the above scholars believed Leontiades (1970) showed that while U S mergers were primarily confined to smaller firms the Europeans encouraged consolidation of their very largest Leontiades' findings suggest that there was not only a quantitative difference in the mergers of U S and non U S firms but there were qualitative differences as well The reason for American mergers was usually easy entry into new markets (Steiner 1975) The primary reason for European mergers was an expressed desire to emulate and hopefully by emulating eliminate their American competitors Yet the result of European mergers was quite often pooling of inefficiencies [illegible]

Siekman gave the example of the European chemical industry [illegible] Basf and Hoechst obtain better returns than either Imperial Chemical Industries or Montecatini Edison despite the fact that both ICI (Imperial Chemical Industries) and ME (Montecatini Edison) were much larger and had virtual monopolies in their respective home markets of Britain and Italy (Siekman 1970). European MNC giants often became no more than an aggregate of older smaller inefficient firms. In the European case bigger was not always better, but the Europeans proceeded as if it was.

There were further quantitative and qualitative differences between the American merger movement and the European movement. The European merger movement was more recent, less extensive, and less involved in overseas investment than the American merger movement. However, both movements had one distinctive similarity: the acquisition of assets was heavily concentrated in the largest firms.

The giantism of European firms signaled the start of an European invasion of America. As these gigantic new firms looked for new markets to enter, America, being the largest and best developed consumer market in the world, was the most logical choice.

Japan: 1950-1970s

Economic development in Japan followed a different path from that of Europe. The postwar Japanese growth "miracle" (annual growth rates of over 10% from 1950-1973) was primarily production driven. Japan had a number of inherent advantages over their future global competitors from the United States and Europe: a substantial initial labor cost advantage the ability to transfer technology from the [illegible] the lack of a past legacy (Porter 1986) of international investments and organizations. In particular, this last trait would allow the Japanese to examine the international economic environment for opportunities for entry and expansion without having to accommodate previous investment and/or structural decisions (Porter 1986, p. 43).

The Japanese also had two inherent major disadvantages: a serious shortage of capital and a lack of natural resources. The lack of resources was not a new problem for Japan and one for which solutions already existed (Kono 1984).

The capital shortage was a more difficult problem to solve. However, the Bank of Japan was created to solve this dilemma and did so by setting up a unique banking system geared toward stimulating production (see Chapter 3; Uno 1987). Additionally, the government induced the highest rate of savings in the advanced industrialized world (net savings of 27% of net national product by 1966) by a "backward social security system, making personal credit difficult to obtain, and creating the necessity of paying for the education of children" (Ohkawa & Rosovsky 1973, p. 170). The government designed policies which made it easy for firms to obtain cheap money and subsidized these policies with high levels of consumer savings. The 'traditional pattern ... shows the household sector produces savings surplus and the corporate sector absorbs most of it for investment' (Uno 1987, p. 78). Thus, with the capital problem solved, the Japanese were ready to enter international markets.

The production driven growth oriented goals of the Japanese firm were similarly created by government policy. As will be explained later in greater [illegible] Japanese pol[illegible] mergers [illegible] cies, cartels, and consumer savings all combined [illegible] induce [illegible] Japanese industries to be growth oriented and to seek export markets [illegible] dispersing production activities only grudgingly. This in essence [illegible] that the postwar Japanese firms were the first to engage in what is [illegible] being called globalization (Porter 1986 p 45). As in the case of other first movers, this gave the Japanese a tremendous competitive advantage as global trade barriers began falling making the global corporation a viable alternative to the multidomestic corporation.

The 1980s and Beyond

The past decade saw a rapid increase in the relative competitiveness of certain European and Japanese firms. During this period trade barriers continued to decline prompting a second wave of internationalization termed globalization. This combined with sharp reductions in the real costs of transportation (Porter 1986) as well as growing similarities among countries in marketing systems, business practices, and infrastructure has led to greater homogeneity of consumers and producers which has increasingly led to the identification of global market segments (Keegan 1989) and strategies (Levitt 1983). As technology continues to lower costs and make world markets increasingly accessible the likelihood is that global firms will continue to grow. However this prediction is based on the assumption that governments will not intervene and resurrect the protectionistic policies of the 1920s and 1930s.

Political Science

As the above-mentioned historical narrative illustrates, governments, along with technology, are the primary forces which drove the patterns of trade. Thus, any theory which purports to offer a valid normative model for strategic choices in the international marketplace needs to in some way account for the role that government plays, not merely focus on technological and/or economic issues.

However, governments may in fact exert more subtle influences on international competition than the broad and sweeping pendulum of free trade to protectionism and back again. It may be that certain government policies toward labor and capital markets may influence a firm's choice of (objective function) goals and strategies and may indeed provide a basis of sustainable competitive advantage in the world marketplace. Just how governments might accomplish this is the focus of this dissertation. However, this is not the first attempt to develop a model of international strategic competition and/or trade.

Classical Approaches to the Theory of Trade

Can scholars develop a normative model which explains and predicts these patterns of international trade and competition? For about two hundred years, theories have been proposed to address this question. Adam Smith, in The Wealth of Nations (1776), provided the initial formulation with his theory of absolute advantage. He suggested that a country could maximize its income by specializing in production of the goods it can produce most inexpensively. A country would import only those goods which other nations could make for less. Any good that a country could produce more inexpensively than other countries would be exp [illegible] would be said to have an absolute advantage with respect [illegible] a country produced all its goods more cheaply than anoth [illegible] should not engage in trade This last notion was supplanted by Ricardo's (1817/1953) theory of comparative advantage

Ricardo demonstrated that gains from trade could still be obtained even if a country had an absolute advantage in the production of all goods For instance if Japan can produce TVs at one fourth the cost of the USA and can also produce VCRs at one half the cost the theory of comparative advantage would suggest that Japan should specialize in TVs where its relative advantage was greater According to the theory of absolute advantage Japan should not export either product but the theory of comparative advantage suggests that maximum production will be achieved if the US exports the good in which it has the least comparative disadvantage

The following example illustrates the point

Table 1 1
Worker Hours/Unit USA and Japan

	USA	Japan
TV	4	1
VCR	8	4
Total Worker Hours	48	48

Forty eight labor hours produces twenty four TVs and six VCRs in Japan while producing six TVs and three VCRs in the U S for a total of thirty TVs and nine VCRs This is the total output advocated by Smith s pursuit of absolute advantage However by using the theory of comparative advantage production can be increased to thirty two TVs and ten VCRs Thus

comparative advantage maximizes global welfare by using national bases o
relative advantage.

Ricardo's theory of comparative advantage remained general
accepted well into the twentieth century. In fact, many of the articles of the GATT (General Agreement on Tariffs and Trade) were based o
Ricardo's principles (Geneva, 1969). Ricardian logic was refined by Heckshar and Ohlin (Samuelson, 1971) who focused on two productive elements termed factors (labor and capital) as opposed to Ricardo's one factor (labor) model. Their model contained two axioms: (1) countries vary in their amount of labor and capital, e.g., factor abundances, and (2) products differ in how much labor or capital they require, e.g., factor intensities. (The theory assumed (1) all countries have the same technologies, (2) no scale economies, and (3) homothetic tastes, i.e., no product differentiation. It also assumed "perfect markets, free trade, no transportation costs, and complete international immobility of productive factors" (Baldwin & Richardson, 1981, p. 45).)

The most significant derivation of this theory was the finding that countries should export goods in which the factor intensities were similar to the nation's factor abundance. Put simply, capital abundant countries (like the USA) should export capital intensive goods (like autos). Conversely, the USA should import labor intensive goods.

This theory came under severe criticism on a variety of fronts. The assumptions were criticized as being unrealistic and not at all representative of trade in the international economy (Grubel, 1981). However, the most devastating challenge came from the empirical work of Leontief (1954) who found that USA imports on average tended to be more capital intensive than US imports Since the US is a capital abundant country the converse should hold This finding labeled "Leontief's paradox" could not be satisfactorily explained away by the Heckscher Olin framework This inability to reconcile Leontief's paradox with the two factor theory coupled with criticism concerning the lack of scale economies (Baldwin & Richardson 1981) and product differentiation (Grubel 1981) led to the development of the product life cycle theory of international trade

International Product Life Cycle

Vernon and Wells (1986) argue that product innovation plays an important role in developing theories of international trade They suggest that innovations tend to occur in advanced industrialized nations and that these innovations produce a short run sustainable comparative advantage

Thus the international product life cycle fundamentally represents a "trickle down" theory of world trade and investment Products originate in first world countries then move to other first world countries for sale and manufacture Finally once production has been standardized and the product-market matured production is shifted to the third world (LDCs) for sale and for export back to the first world The theory is discussed more fully below

The product cycle theory was well developed on a theoretical level (Vernon 1966 Wells 1968) and was initially validated by empirical studies (Wilkins 1970 Vernon 1966 Wells 1968 Vaupel & Curhan 1972) The theory of the product cycle which assumes that information and technology are tightly controlled states that products undergo predictable changes in marketing and [illegible] (Wells, 1968, 1970 1972) The international product life cycle is generally recognized as being arbitrarily divided into three separate phases the introductory phase the growth phase and the mature phase Each of these phases is briefly discussed below

The introductory phase of the product life cycle or Phase I is usually characterized by high unit costs labor intensive production functions short production runs and loose product specifications Frequent changes in the manufacturing process production sequence and production equipment are also common in this phase

Phase II or the growth phase is generally characterized by mass production mass distribution longer production runs special purpose machinery, lower unit costs, capital intensive production more elastic demand Entry into the market becomes easier because of the expiration of patents, the development of close substitutes and the development of manufacturing skills During this phase management skills assume critical importance This is also the phase when other first world competitors enter the product market

Phase III or mature phase is characterized by the market becoming saturated industry sales volume reaching a plateau production specifications become standardized innovations in either product or production process become extremely rare the manufacturing process becomes much more capital intensive the optimal size of the manufacturing unit becomes larger and economies of scale become an important factor in determining the competitive strength of individual manufacturers Other aspects of this phase include changes in the composition of the labor force unskilled labor [illegible] market and exits become very [illegible]

A scenario for the Product Cycle Theory would be as follows: When foreign demand develops the U S begins to export As foreign income grows and as unit prices fall U S exports increase When the market abroad is large enough American direct foreign investment begins The length of time until this investment begins is dependent on the economies of scale tariffs transportation costs the income elasticity of demand for the product and the income level and size of the foreign market (Time frames are shorter where economies of scale are reached at low volumes, tariffs and transportation costs are high income elasticity of demand is low and the income level and size of foreign market are large)

When production has begun in foreign markets it signals the growth phase of Phase II of the Product Cycle American exports to these producing areas are decreased but continue to go to nonproducing markets Toward the end of this phase other first world companies enter the product market

In the third phase American exports to nonproducing countries are challenged by exports from other nations In other words advanced countries provide relatively large markets for recent American innovations but by the time the markets of the less developed countries become important the American firms face stiff competition from other first world manufacturers as well as the development of third world competitors

Thus the large technologically based American MNCs find themselves in a situation where they must constantly be engaging in expensive R & D to maintain their competitive position with respect to their competitors

Yet the MNC can reduce the unit cost [illegible] to [illegible] This can be done by exporting the technology to new markets

Although initially formulated to explain the trade pa[illegible] arose in the late 1950s and early 1960s the international product [illegible] cycle theory like the theory of comparative advantage before [illegible] has recently come under attack Although early research supported the [illegible] predicted patterns of trade and investment more recent work has increasingly found support lacking Lutz and Green (1983) analyzed 4 digit level manufacturing categories in 1974 for four countries the U S A Japan West Germany and the United Kingdom They found that their results for technology intensive industries tended to support the product trade cycle theory for all but Germany with the United Kingdom data providing the strongest evidence Mullor Sebastian (1983) took the analysis one step further by using 1976 world trade data but splitting it into two categories industrial product groups and consumer products She found that industrial products strongly behaved in the manner predicted by the international product life cycle but that consumer products as a whole did not although there were individual exceptions

Thus the empirical support for the theory was becoming more ambiguous The theory appeared to hold for only certain countries and certain product categories Harrigan (1984) stated this reevaluation of the usefulness of the international product cycle theory by suggesting that while it "may be an efficient way to look at enterprises in the U S economy that are on the threshold of developing a foreign business [it] is losing some of its relevance for those enterprises that have long since acquired a global economic capacity and a global habit of mind" (1948 p 6 39)

The most serious attack to date however has been the empirical examination of recent patterns of world trade and investment The international trade cycle theory would predict that investment and trade patterns should move from home first world country to host first world country to third world country[2] Particularly with respect to investment this pattern is not occurring[3] Direct foreign investment is not moving to third world countries at the rate or level that product cycle theory predicts (Keegan 1989) Advanced industrialized nations tend to invest and import/export heavily with each other largely ignoring the rest of the world marketplace Second product cycle theory states that products are introduced to markets in a home country first world third world order Increasingly however, products are being introduced simultaneously in global markets rather than in the sequence suggested by the international product life cycle Product cycle theory cannot explain either of these trends Once again international marketing has been presented with phenomenon for which there are not guiding theories

It is the purpose of this dissertation to attempt to remedy this dilemma by proposing a new theory to explain and predict international patterns of trade It is my contention that international business in general and international marketing in particular has ignored the contributions that the disciplines of history and political science can make to enhancing our understanding of the forces that determine success in the international marketplace For instance a historian might point out that the demise of classical trade theory as a viable predictor of trade coincided with the rise in importance that multidomestic corporations played in the international marketplace. Multidomestic corporations became competitors to the domestic firms which had arisen earlier reinforcing the role that scale economies played in market development as well as introducing national scale product differentiation (Wilkins 1974) Similarly political scientists might have suggested that it was the rejection of the "Atlantic plan" and the triumph of DeGaulle's "European plan" which gave rise to the treaty of Rome (1957) and the subsequent European Common Market The "trade barriers" erected by the Common Market led to such massive investments by U S firms in Europe that Serven Schreiber (1968) called it an "American invasion" Vernon's empirical findings about trade in the late 1950s and 1960s which led him to develop the trade cycle theory could just as easily been explained by the desire of American firms to not be excluded from the European marketplace

Be that as it may if the classical trade theorists failed to foresee the rise of multidomestic corporations then the product trade cycle theorists failed to foresee three countervailing forces First was the rise of the Global Corporation These global corporations accelerate (Jain 1990) reverse (Kane 1984) or ignore (Levitt 1983) the product life cycle's phases Second was the "uncoupling" of industry from traditional factors of production labor and resources (Peters 1987) For many contemporary products it is not unusual to find that the cost of packaging actually outweighs the cost of manufacture Lastly business research largely ignored the fact that the world economy has become more internationalized (Keegan 1989) and that these non American firms may compete in the international [illegible] than their American adversaries [illegible] tors may help to account for why [illegible]national [illegible] operating as the product life cycle theory suggested it might

Here I propose to offer a "new" theory of international competitive strategy This theory differs from previous attempts in two major ways First while previous theories have focused on patterns of trade between nations the new theory states that trade generally takes place between firms and markets or firms and firms not between nations Therefore the unit of analysis is the firm rather than the nation state Second the basis of a firm's success is achieving and maintaining a sustainable competitive advantage in the international marketplace This is done by the firm choosing an appropriate strategy The strategy is determined by (1) the firm's resources (2) the structure of the industry and (3) the country (government policies) in which the firm is based The first two criteria are derived from the industrial organization literature The third criterion is derived from the international political economy literature and suggests that a country through its industrial policies laws tax policies and regulations influences the objectives of the firm Additionally the "biological" model of trade suggests that a country has inherent customs geography and resources (human capital and natural) called "phenotypes" which create tendencies toward the development of certain types of products/innovations (Feenstra 1982 Dinopolous 1988) For instance, Japan with its high population density and lack of natural resources places a premium on minimization and energy efficiency Thus the biological model would argue that the Japanese would be likely to be investors produce [illegible] The "biological" and "political economy" models might or [illegible] reinforce each other it very well may be that the "phenotypes" [illegible] development of certain government policies Regardless the differences in objectives helps explain why two firms (based in different countries), in the same industry, having identical resources producing identical products achieve differences in growth and profitability Typically governments regulate capital and labor markets and by doing so influence corporate capital and labor intensities as well as goal orientation Thus the proposed theory focuses on government policies rather than factor abundance Firms based in a given country are hypothesized to have similar goal orientations and employ similar capital/labor intensities resulting from government policies The theory hypothesizes that achieving a strategic fit between goal orientation capital/labor intensities and oligopolistic industry structure results in superior global competitiveness Assuming global oligopolistic markets firms based in certain countries will achieve superior global performance based on home government policy industry structure fit A firm's relative industry position may also exert an additional minor influence on its international performance providing that the generic strategy dictated by its relative industry position coaligns with its government policy-industry structure fit

This "new" theory deviates from previous theories of international trade in that human decisions rather factor endowments provide the basis of competitive advantage CEO's whose strategies are based on optimizing their firm's resources industry structure and home government

policies will perform better [illegible]
on such decision criteria

Rationale for the study. One might be tempted [illegible]
really a marketing topic? Might not this study be more appropriately
thought of as creating a theory of international economics and/or business
strategy? After all, the proposed framework relies heavily upon Porter's
(1980, 1985) work on generic strategy and industry structure.

The proposed theory does draw quite heavily from the international economics and business literature and has implications for both fields. Yet marketing, in general, tends to rely heavily upon the fields of economics and/or psychology for its theoretical development, and marketing theories often have implications for the fields of economics and management. In that sense, this attempt is quite similar to previous work.

Second, Day and Wensley (1984) argue that " marketing has a broader strategic capability than is suggested by [Biggadike 1981]" (1983, p. 85) who suggested that " it will be up to strategic management students to make the transfer of marketing concepts to strategic issues" (1981, p. 630). Specifically, Day and Wensley identify three areas of competitive market strategic behavior "where a marketing perspective should offer a distinctive if not the dominant view" (1983, p. 86). The strategic themes that were identified were: "(1) The behavior of existing markets, (2) identifying and estimating new opportunities, and (3) the specific assessment of resource allocation choices" (1983, p. 85). The proposed theoretical framework is an attempt to relate the strategic choices firms make to their success in global markets. As such, it fits quite nicely into Day and Wensley's perspective.

A third reason for thinking that [illegible] for this study is that it represents [illegible] tional marketing scholars have intuitively believed b[illegible] cult time showing that international marketing can co[illegible] and important managerially relevant theories. Much of international marketing has focused on the international marketing host country environment which acts primarily as a constraint on behavior. This study focuses on human decisions as being the primary basis of sustainable competitive advantage in the international marketplace. Moreover, these decisions are somewhat susceptible to managerial manipulation and influence. Thus, the framework will hopefully not only explain and predict patterns of international strategic competition, but will provide a basis for normative decisions as well.

Specifically, in this paper, attempts are made to answer three questions. First, what is international marketing strategy and how does it differ from domestic strategy? Second, why do a certain nation's firms outperform other nations' firms in a given industry? Third, are there systematic reasons why firms in the same nation and industry have differential rates of performance over time?

Here I attempt to pose answers to these questions by suggesting that a firm's performance over time is a consequence of choosing the appropriate strategy and that it is the mix of a firm's country of ownership, industry structure, and resources which determines the optimal basis of sustainable competitive advantage (SCA) and, hence, the appropriate strategy. Before explaining how country/industrial structure/resources result in effective strategies, it will be necessary to attempt to formulate answers to the above three questions I begin [illegible] of what is international marketing strategy and how it is [illegible] and different from domestic marketing strategy

Notes

1 Of course the issue of efficiency is not entirely based directly on economies of scale Other issues such as increased productivity shared advertising costs and reduced R & D expenditures all contribute to the alleged efficiencies conveyed by large organizations Yet all of these other benefits are also attributable to large size Though not directly related to production these other attributes are a by product of the large size of the MNC and hence might be considered a by-product of the economies of scale which created the MNC giants

2 The classic international trade cycle theory predicts firms invest in their home country first When other first world markets become large enough the firm also invests there Later when production requires unskilled labor and competition is based on price firms invest in third world countries

3 Exactly why the pattern is not occurring is unclear However it may be that the development of global production strategies and markets obviate the need for these type of FDI patterns

CHAPTER 2
LITERATURE REVIEW

Introduction

International marketing strategy formulatio[illegible]s received scant attention by marketing scholars. What little research has recently appeared (Tse et al. 1988; Kotabe 1990) focuses on culture as the key differentiating variable which distinguishes domestic from international marketing strategy. It will be argued here that an overemphasis on microeconomics, psychology and anthropology as well as an underutilization of such disciplines as history and political science is partially responsible for the current dearth of theories which might direct international marketing research. These disciplines can make an independent contribution to marketing theory and knowledge.

In this chapter, tentative answers are formulated to three questions: What is international marketing strategy formulation? How has the field of international marketing sought to differentiate itself from domestic marketing? How should it do so in the future? I begin with a brief discussion of the current malaise in the field of international marketing.

American firms and scholars were caught, for the most part, unprepared for the non-American challenge of the 1980s and 1990s. International aspects of business, particularly although not exclusively in the field of marketing, have been largely neglected in business [illegible] of [illegible] [illegible] of [illegible] [illegible] marketing scholars to the fundamental changes in competitive [illegible] industry structure American firms were likely to face in the decades to follow marketing scholars have been slow to respond As recently as 1984 the editors of the Journal of Marketing lamented this apparent lack of interest in international marketing research on the part of the marketing research community commenting " that despite the obvious increase in international marketing activities this trend has not been reflected in the marketing literature" (Cunningham & Green 1984 p 9) In part this dearth of research activity is a result of marketing's inability to develop criteria for what constitutes the domain of international marketing Even Cunningham and Green who were calling for more work in this area admitted the difficulty in providing a set of topics which constituted legitimate international marketing research Why has it been so difficult to delineate the scope of international marketing?

One major reason that it has been so difficult to identify the boundaries of international marketing is that the term has a variety of definitions Despite an early attempt by Hanley (1972) to bring marketing definitions into line with those of political science sociology and economics the term international marketing seems to mean whatever the author in question wants it to mean In part this is because the term international marketing even if used in a manner consistent with political science are will still have several meanings In a myopic and ethnocentric sense international marketing means anything having to do with marketing which is focused on activities taking place outside the

[illegible]

Studies focusing on a single country [illegible] Loudon [illegible] 1986 Cole 1980 Meissner 1980) are generally referred [illegible] studies Since most of marketing research focuses on America [illegible] say from this perspective most of marketing is an area study The primary shortcoming of area studies is its lack of generalizability (Kaynak & Savitt 1984) Thus, it is not surprising to find lack of generalizability as a common criticism of contemporary consumer research (Douglas & Craig 1984)

Comparative marketing is when the domestic environments of two or more countries are the subject of investigation (Kaynak 1976 Leff & Farley 1980) The more countries in the study the more potentially generalizable the findings International marketing in contrast deals with between nations relations rather than comparisons of within nations activities From this perspective international marketing strategy might deal with the competition between firms from different countries while comparative marketing strategy would deal with a single firm s experiences in several different countries (Kaynak & Savitt 1984)

All of these subdisciplines (Area studies Foreign marketing Comparative and international) combine to form the field of international marketing Moreover, there are five possible levels of analysis global macro, meso micro, and individual Global analyses treat the world as a homogeneous unit (Ohmae 1991) macro analyses operate at the national level (Porter, 1990a) meso studies operate at the industry level (Porter 1986) and micro studies operate at the firm level (Young & Hood 1976) at [illegible] global marketing [illegible] unnecessarily complicate the issue But if the field of international marketing expects to draw upon the work being done in other international disciplines or communicate with such experts adopting the same precise language will facilitate the transmission of knowledge

Taken in this light it is easy to see why marketing scholars have had difficulty delineating the scope of international marketing Marketing scholarship has been overwhelmingly myopic and ethnocentric Ethnocentric in the sense that from this perspective international marketing has largely been seen as Foreign marketing Myopic in the sense that marketing theory and American marketing theory are virtually synonymous International environments are seen as opportunities to extend the generalizability of American marketing theories (Douglas & Rhee, 1989) rather than as an opportunity to add to the knowledge base by developing theories to explain what happens when firms move beyond national boundaries

In this discussion, I intend to focus on the international aspects of international marketing strategy Specifically I will formulate answers to two questions What is international marketing strategy? How does it differ from domestic marketing strategy?

What is international marketing strategy? It becomes easier to answer that question if one examines the constituent components of international marketing strategy In this paper international marketing strategy is conceptualized as being the intersection of international political economy industrial organization (business strategy) and marketing theory as illustrated in Figure 2 1 International political economy is defined as the [illegible] international economic relations. Business strategy is seen from the perspective of Learned, Christiansen, Andrews, and Guth (1965) who define strategy as how a firm attempts to compete in its environment. This encompasses key choices about goals, products, marketing, and manufacturing. Marketing theory encompasses many of the theoretical contributions that consumer research and marketing management research have made which improve a firms competitive performance. Although these definitions are more fully elaborated in the sections to follow, these cursory definitions will hopefully allow the reader to follow the discussion below.

What is international marketing strategy? Using Figure 2.1 as a basis, international marketing strategy can be seen as the juxtaposition of marketing theory, business strategy, and international political economy. However, just how these three elements fit together and in what order they are juxtaposed varies from discipline to discipline. Figure 2.1 shows the four paths which are representative of the scholarly work which has been done in international marketing strategy. Paths 1 and 2 emerge from the fields of consumer research and marketing management respectively. From these perspectives, international marketing represents a context in which to generalize domestic marketing theory. Path 3 represents traditional thinking in the field of international business. From this perspective, countries are viewed as being home or host nations who offer differential cultural and locational advantages. Path 4 represents a new approach to international marketing strategy. From this perspective, government policies are seen as influencing a company's strategic goals which in turn influence its choice of strategies.

Marketing Theory

Both paths 3 and 4 adopt Weitz and Wensl[illegible] marketing strategy "Business level strategy deals [illegible] selecting target product markets and identifying and exploit[illegible] range of potential competitive advantages Marketing strategy focuses on a specific set of competitive advantages related to marketing activities" (p 18) Thus marketing strategy is seen as choosing the marketing mix which best supports the business level strategy

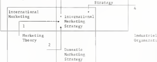
International Political Economy
3
International Business Strategy
4
International Marketing
1
International Marketing Strategy
Marketing Theory
2
Industrial Organization
Domestic Marketing Strategy

Figure 2 1 Model Academic Domains of International Marketing Strategy

This cannot be done without knowing what the business strategy is Thus from this perspective marketing strategies change only if business strategies change

Table 2 1 summarizes key attributes of each of the four perspectives presented here Each is discussed below I begin by asking what is unique about international marketing strategy?

International Marketing Strategy Scholarship

Attempting to identify unique international [illegible] use to compete in the emerging global economy has pro[illegible] somewh[illegible] difficult task This is partly due to the fact [illegible] strong sentiment among marketing scholars that there is nothing unique about international marketing strategy Beginning with Sheth (1972) a majority of marketers have agreed with George Weissman of Phillip Morris who said that there was no such thing as international marketing only domestic marketing worldwide (Keegan 1981) This is the view of marketing held by multidomestic corporations (Porter 1986) Keegan (1981) makes the flip side of this argument by noting with the exception of certain markets which are inherently local in nature (e g babysitters) there is no such thing as a pure national market all markets are either actual or potential international markets" (1981 p 2) Both of these arguments suggest that there is nothing conceptually different about international marketing The international environment merely creates a considerably more heterogeneous context in which to test the generalizability of domestic theories If true this would make the field of international marketing generally and the field of international marketing strategy specifically essentially redundant In order to prevent the field of strategy from engaging in the wastefulness of excessive subdivision and/or duplication it is important to delineate new subfields in a given area by the manner in which they distinguish themselves from what is already known In short when moving from domestic to international strategies in order to establish international marketing strategy as a separate field worthy of study it is necessary to explain (1) how international

Table 2 1
A Comparison of International Strategic Perspectives

	Path 1	Path 2	Path 3	Path [illegible]
	Marketing Management	Consumer Research	International Economics and Business	Strateg[illegible]
Unit of Analysis	Firm	Consumer	Industry/firm in an international industry	Firm with [illegible] domestic industr[illegible]
Type of Problem Addressed	Content	Process	Content	Content
Type of Data	Performance	Performance	Performance	Performance
Dominant Inference Pattern	Resource allocation direct performance	Managers manipulate consumer perception to increase purchase intention	Locational, knowledge and industry factors drive performance	Industry structure limits performance
Typical Research	Douglas and Rhee (1989)	Johansson and Thorelli (1985)	Dunning and Pearce (1982) Porter (1986 1990a)	Porter (1980 1985)
View of International Influences	Context in which to test the generalizability of domestic theory		Locational cultural advantages differ country by country	Government policies influence firm goals

domestic strategy di[illegible] [illegible] international strategy [illegible] strategy

Classic scholarship has not [illegible] ing the criteria. As Kogut (1989) states "The traditional answer has been simply that the world is a bigger place and hence all economies related to the size of operations are therefore affected" (p. 383). But this answer does very little to enhance our understanding of strategy. In fact, views like this (Keegan, 1989) imply that what is happening when firms move from a domestic to a global environment is analogous to what happened in the last century when national firms emerged to compete with regional firms. The implications of this logic is that to survive (particularly in oligopolistic industries) firms will need to "go global" but in going global firms are likely to encounter international languages, preferences and customs which will need to be accounted for in any strategic plan much in the same way national firms had to (and still do in certain instances) accommodate regional preferences. This leads to the second and dominant school of thought in international marketing: culture. From this school's perspective, culture is what distinguishes international from domestic strategy. In order to produce unique contributions, international marketing needs to develop and test unique marketing theories of culture.

Terpstra (1978) identifies several dimensions of culture which create potential problems for international marketing. Cultural variability results in the need for greater adaptability and flexibility. Cultural complexity which makes it more difficult to understand the marketing environment [illegible] heterogeneous makes [illegible] more difficult to standardize marketing practices. Terpstra cautions that [illegible] technologies may not transfer from culture to culture.

Lee (1966) suggests that the root cause of these [illegible] is what Perlmutter (1965) terms ethnocentrism. Ethnocentrism [illegible] own culture as the reference for interpreting foreign environments. [illegible] (1983) gives numerous illustrations of this point.

Although it is taken as a given in many quarters that culture [illegible] key differentiating variable in the international marketing environment, there are numerous problems with this approach. First, as empirical work (Douglas & Wind, 1973, 1974) has indicated, firm characteristics such as size and managerial attitudes far better predict international variations in corporate activities than do cultural factors. Second, as Keegan's (1989) analogy illustrated, culture plays a role in domestic marketing. Thus, cultural variables are not unique to the international domain. Third, it appears that the influence of culture is lessening over time for many product categories. As the world economy becomes more globalized, people in different countries with similar sociodemographic/income characteristics behave more similarly than do people in the same country but from different social classes (Keegan, 1989). Fourth, I suggest that culture is more of a tactical variable than a strategic one. That is, firms decide on a generic strategy (niche, leverage, etc.) but prior to implementing the strategy, cultural differences need to be taken into account in the strategic plan. Thus, culture plays an important role in strategy implementation rather than in strategy formulation. Ricks (1983) does a tremendous job in showing the disastrous results of ignoring culture in implementing strategy [illegible] subject to managerial manipulation [illegible] of improving a firm's performance through inc[illegible] business environment culture is not theoretically [illegible]ing because the firm must adjust itself to the culture rather than the other way around

So if issues of firm size or culture do not provide international marketing strategy with a basis to provide additional insights into business strategy what does? One possible avenue of research which to my knowledge has not been done but which could be done drawing upon the strategic decision making literature (Schwenk 1984) would be to attempt to examine why Ricks (1983) marketing blunders occur Are there characteristics of firms and/or managers which make them more or less likely to make these blunders? Are there techniques which can be employed to change disfunctional managerial behaviors? Such characteristics might stem from cultural factors but they also might emanate from organizational structures and/or personal attributes of the managers (myopia ethnocentrism etc)

A second area of research which has seen some effort (Andersen & Coughlan 1987) involves mechanisms firms can employ to offset the additional risk incurred when corporations expand overseas This would include initial involvement decisions (Cavusgil 1980 Cavusgil & Nevin 1980 Bilkey 1978), entry and expansion strategies (Ayal & Zif 1978 1979) export strategies (Czinkota & Johnston 1980) country clustering (Seth 1971) identifying global market segments (Thorelli & Becker 1980) and developing global products channels and pricing strategies (Levitt 1983)

However there is a third [illegible] research [illegible] received relatively little attention [illegible] major facto[illegible] international marketing strategy from domestic marketing [illegible] politics in international marketing strategy governmental poli[illegible] provide a basis for producing a sustainable competitive advantage [illegible] American domestic marketing overt government intrusion into the marketplace to promote the interests of one domestic firm at the expense of other domestic firms is considered "unfair and is heavily sanctioned when such attempts become public knowledge On the other hand in international marketing such practices are very common with governments routinely intruding in the marketplace

Politics can influence firms in at least four distinctive ways First in fitting with the traditional perspective differences in national markets create unique profit opportunities which can be achieved through adjusting their firms' competitive strategies (Kogut 1989) From this perspective international marketing is viewed as segmentation where all nations (and their policies) do is serve to divide the world into a number of distinct sales territories Thus global marketing strategies become those of global integration (standardization) and national adaption (Fayerweather 1969 Doz 1979 Kogut 1984 Porter 1986 Jain 1990) The problem with this literature is that it is too simplistic merely focusing on the influence of standardization/national differentiation on national markets without attempting to understand what is it that changes about marketing when firms expand beyond their home countries Moreover this view of the role of government is essentially negative in nature seeing governments as market disrupters who create distortions or "market imperfections [illegible] businesses [illegible] and related body of literature deals with political [illegible] or host government intrusion into international marketing a[illegible] (Simon 1984 Kobrin 1982 1979) Both of these approaches essentially view government as a negative force in the international environment

The third way in which governments influence firm behavior is through the creation of 'strategic trade policies' (Brouthers 1990) This is usually accomplished by either protecting domestic markets and/or subsidizing industry production (Krugman 1986)

However there is a fourth manner in which governments influence strategic competition in the international environment which to my knowledge has never been expressly integrated into the international marketing strategy literature Through the creation of certain laws and regulations governments can influence the goal orientation of their global corporations By creating certain incentives and penalties firms can be induced to shift from short term profit maximization to goals of long run profitability or long term market share Although the idea of firms from different countries having different goals has been suggested (Douglas & Rhee 1989) and empirically observed (Doyle Wong & Saunders 1989, Morrison 1989 Porter 1990a), the notion that these goals are a consequence of government activity and this activity can be expressly described and integrated with existing models of domestic strategy to build predictive and descriptive models of international strategic competition has never before been presented Yet this is the focus of this dissertation Here a framework will be presented which integrates country (government) industry and firm resource factors This framework will hopefully explain contemporary p[illegible] competition However before explaining [illegible] necessary to review the contributions made by [illegible] business and strategy (business policy/industrial organization [illegible]) to the development of this new framework

International Economics/International Business Theory

The more recent work in international economics has [illegible] emphasis from pure models of international trade as [illegible] discussed to hybrid models of international economic in [illegible] incorporate international trade and international (direct) [illegible] production theories (Dunning & Pearce 1982) These models emphasize multinational corporate activity Thus it is not surprising that they heavily draw from industrial organization theory location theory and the theory of the firm A variety of approaches have been taken each providing insights into the nature of international business strategy Several of the more significant approaches are discussed below

Global Horizons

One of the earlier contributions to this emerging body of literature was the work of Aharoni (1966) He asked what are the forces that stimulate a firm to go international? Aharoni suggested that firms had geographical limitations in contrast to classical economic theory which assumes costless and perfect knowledge Aharoni suggested that expanding geographical horizons is part of a firm's growth process For a variety of reasons some internal (development of new technology or products influence of an executive need to enlarge the market dependance on foreign supplies [illegible] competitors moves foreign [illegible] phases are increasingly likely to become aware of [illegible] attempt to [illegible] foreign opportunities (Fouraker & Stopford 1968, Wilkins 1974).

Market Imperfections

A second approach to understanding international business can be seen in the theory of market imperfections. According to this theory, and assuming that a firm has a global horizon (a geographically diverse view), a firm decision to invest in a foreign country is based on the desire to take advantage of specific capabilities not possessed by the local competition (Hymer 1976).

In entering a foreign market a firm suffers from a number of distinctive disadvantages vis a vis its local competitors. Local companies know the marketing and legal environment quite well. Foreign entrants gain this knowledge only at a price. In addition, the foreign firm incurs a number of other risks including cultural blunders and exchange rates (Ricks 1983).

Therefore, in order for the firm to gain a sustainable competitive advantage over the local firms, the firm must necessarily have advantages which outweigh the costs. Moreover, these advantages must be transferable both within the firm (internalization or transaction cost advantages) and across geographical distance. Advantages can be either firm specific or ownership specific (Hymer 1976).

The market imperfections theory argues that in the real world, in contrast to the world of perfect competition postulated by classical economics, products are not homogenous and firms do not all have equal access to resources Firms gain sustainable competitive advantage through the imperfections of the marketplace Product differentiation brand equity superior marketing skills and knowledge barriers to entry patents economies of scale/scope and/or access to capital/labor markets can all be used to obtain a sustainable competitive advantage If these "knowledge based" advantages are more easily transferred within the firm than between firms then the knowledge market is said to be imperfect and the firm can gain a higher rate of return by using the knowledge than by selling it (Caves, 1971)

Market imperfections help explain the existence of oligopolistic structures in specific industries (Knickerbocker 1973)   in such instances, foreign expansion has been viewed as a defensive strategy By being in as many markets as possible a firm maximizes its source of advantage Other firms in the industry must necessarily also expand to as many markets as possible to neutralize the potential advantages (Rugman 1979) gained by being in more markets such as using certain markets to subsidize others scale economies etc

This theory helps explain why certain industries are more likely to "go international" than others However the theory does not explain why investment as opposed to other methods of entry such as exporting or licensing, is the method of choice for exploiting the firm s advantage To understand this it is necessary to turn to internalization theory

Internalization Theories

Coase (1937) in his theory of the firm suggested that the firm should be viewed as an alternative to the marketplace when as was previously mentioned the firm s internal markets produce more efficient (profitable) results than the external marketplace Buckley and Casson (1976) extend this notion in developing their "long run theory of the multinational enterprise " They see the postwar rise of MNC s as a consequence of corporate desires to maximize the profitability of proprietary knowledge of the firm by "internalizing markets across national boundaries" (Buckley & Casson 1976 p 45) Buckley Casson emphasize traditional economic variables cost efficiency and a production orientation In contrast Williamson (1981) focuses more on the economics of transaction costs particularly the markets and hierarchy notion initially advanced by Coase

Williamson's idea of transaction costs analysis comes much closer to the way in which marketing scholars view firms Williamson (1981) posits that a priori an entrant is better off not entering a foreign market Local competitors initially know the local market better and have a better grasp of the subtleties of the local competition than the global corporation potential entrant Thus the local firm should be able to be more competitive than the foreign firm This situation can be changed only when the global firm has "transaction specific assets" (TSAs) which can more than offset the knowledge advantages of the local firm These TSAs might include cost advantages driven by scale economies or some other form of specialized knowledge By emphasizing the knowledge based driven market advantages offered by the creation of internal markets the firm becomes conceived of as global marketing system one that formulates global strategies and relates them to corporate resources to optimize international marketing opportunities Work by Coughlan and Anderson (1987) illustrates how Williamson's transaction cost analysis can be extended to questions of market entry. More [illegible] (1980) applied transaction cost analysis to examine channel integration in international markets.

Eclectic Theory of International Production

Dunning and Pearce's eclectic theory of international production attempts to integrate internalization theory with other theories of FDI, most notably industrial organization and location theory. Internalization theory focuses on how to serve foreign markets (method of entry), industrial organization theory tends to focus on firm specific advantages, while location theory has traditionally emphasized country specific advantages.

Industrial organization theory has concerned itself with identifying those characteristics of firms which provide a basis for sustainable competitive advantage in the international marketplace. According to Dunning and Pearce (1982, p. 78), these factors include superior technology, innovative capacity, and product differentiation.

Location theory historically cited factors such as transportation costs and resource availability as the key criteria for the location of firm activity (Wilkins, 1974). However, with the advent of lower transportation costs and the uncoupling of manufacturing from resources, market size has emerged as the key determinant of FDI (Dunning & Pearce, 1982; Porter, 1986). Thus, the country specific (both home and host) advantages that are offered a firm in Dunning and Pearce's model are derived from resources, natural, population, and capital.

In all three bodies of literature, a firm specific advantage is a necessary condition; it is sufficient only in internalization theory.

However in all three bodies of [illegible] stronger [illegible] advantages create stronger incentives [illegible] into [illegible] Dunning's model however the extent [illegible] and [illegible] international production and investment is determined by both [illegible] and host country characteristics Firms patterns of trade and [illegible] are guided by firm specific ownership advantages (O) (host) [illegible] specific locational advantages as a base for production (L) and industry specific internalization (I) advantages for maintaining proprietary rights for production Thus patterns of trade and investment are to a large extent determined by the relative contribution of these OLI advantages

Dunning and Pearce's theory suffers from two shortcomings First and most important it does not take into account the fact that individual firms develop their own strategies Dunning and Pearce assume that different firms in the same industry have similar strategies and respond to variations in the world economy in similar fashions Thus Dunning and Pearce's model is of limited use to those who wish to investigate patterns of international competition Second the model does not distinguish between policy determined elements of a country's environment from those locational aspects which are not susceptible to political manipulation However Dunning and Pearce's theory was a useful contribution as it was the first model that recognized the need to include firm/industry/country characteristics in any theory purporting to explain patterns of international competition

Competitive Advantage of Nations

Porter (1990a 1990b) extends his earlier (1986) work in which he suggested that industry structure is the key determinant of international competition. In The Competitive Advantage of Nations [illegible] attempts to answer the question why certain nations' firms succeed in international competition. His purpose was to guide managers [illegible] make decisions which would give their firms competitive advantage in the marketplace as well as government policy makers who might wish to construct a business climate conducive to superior international performance.

Porter bases his analysis on four major points:

1. The nature of competition as well as the bases of sustainable competitive advantage vary widely across industries and/or industry segments.

2. The most successful international firms perform at least a few of their value chain activities in host countries basing competitive advantage on a global configuration of activities rather than being merely home country based. This premise is essentially a rehash of the point made by Porter in his work Competition in Global Industries (1986).

3. The primary basis for obtaining and sustaining competitive advantage is innovation. Innovation can be of products and/or of process. It can also be "mundane and incremental" or based on a single major breakthrough (Porter 1990b p. 74).

4. Firms that successfully maintain competitive advantage over the long haul are those who aggressively take advantage of these innovations and use them to dominate new markets or technologies. This idea is similar to Williamson's (1975) first mover advantage which suggest that it is the first firm to exploit an innovation which is likely

[illegible] become the industry leader [illegible] innovate Innovation is not [illegible] aggressive marketing activity

Porter suggests that the attributes of a nation which shape [illegible] business environment facilitate or impede the creation of an international basis for sustainable competitive advantage "Four broad attributes of nations constitute the diamond of national advantage the playing field that each nation establishes and operates for its industries" (Porter 1990b p 77)

1 Factor conditions These include the classical factors production as well as skilled labor and infrastructure Any factors considered essential for effective international competition are included here

2 Demand conditions This focusses on the nature of home country consumers Porter suggests that superior products and firm efficiencies can be driven by the nature of the home market Competitive business environments and sophisticated consumers lead to superior firm performance for the surviving firms Superior performance provides a basis for sustainable competitive advantage in the international marketplace providing that foreign markets for these superior goods exist

3 Related and supporting industries The presence of support industries in the home country can provide a basis for international competitiveness

4 Firm strategy, structure, and rivalry This includes conditions and customs in the home country concerning how firms are created

organized [illegible]

(Porter 1990a p [illegible]

ow these four factors influenc [illegible] to Porter is briefly summarized below

Factor conditions Porter has revised classi [illegible] abundance in two ways First Porter suggests that facto s of prod [illegible] were more complex than had been previously suggested In his theory factor endowments expand to include human resources climate physica resources geographic resources knowledge resources location capital and infrastructure

Second, Porter suggests that some endowments change over time rather than remaining static Although some factors such as climate and natural resources are unchangeable and fairly basic other factors such as telecommunications and knowledge are susceptible to rather dramatic changes and often rely upon large long term investments in personnel equipment and infrastructure Abundant local supplies of such factors can provide a basis for international competitiveness because such factors drive the process of innovation which Porter suggests is the primary means for obtaining a sustaining competitive advantage Specialized factors such as highly skilled personnel field specific knowledge superiority and/or specialized support systems Porter argues are more likely to provide a basis for advantage because they are in short supply difficult to develop and hence relatively inaccessible Thus specialized factors serve much the same function in terms of international strategic competitiveness as the "unique selling proposition" does in product differentiation

Demand conditions Porter suggests [illegible] competitive advantage in industries where the home demand gives [illegible] companies a clearer or earlier picture of emerging buyer needs and where demanding buyers pressure companies to innovate faster and achieve more sophisticated competitive advantages than their foreign rivals The size of home demand proves far less significant than the character of home demand" (1990a p 79)

Although conceding domestic market size is important when a particular industry segment is larger or more visible in the domestic market than in foreign markets" (1990b p 79) Porter goes on to say that domestic buyers are more crucial to global advantage than are the size or mix of segments Tough domestic buyers stimulate firms by providing (1) an impetus to meet high performance standards (2) a "strategic window" into evolving buyer needs (3) mechanisms to improve communication between buyers and producer and (4) a stimulus for continual product improvement and innovation

Porter goes on to give illustrations of how consumer demand leads to improved product performance using Japanese population density as an example of a stimulus to produce quiet air conditioners This view of demand stimulated production is very similar to the biological model of trade formalized by Dinopoulos (1988) which suggests that firms respond to local conditions which produce differentiated products which in turn can be expected to similar market segments in other countries Porter s view of the importance of market size however does seem to contradict Dunning and Pearce (1982) who suggested that market size was the key variable in determining patterns of investment and trade However Porter is talking [illegible] product distribution

Related and supporting industries   Home country suppliers [illegible] provide a basis of sustainable competitive advantage in at least three ways   First suppliers can provide downstream firms with rapid easy and sometimes preferential access to the most cost-effective inputs   Second domestic suppliers can adapt their own processes to accommodate the needs of the downstream firms or conversely these downstream firms can alter their own product plans to take advantage of supplier s product innovation   Third to the degree to which suppliers and firms are technologically interrelated and at the introductory or growth phase of an industry cycle   Superior supplier technology at this phase can produce temporary advantages for the firm

Strategy, structure, and rivalry

In Porter s framework the intensity of domestic industry competition was, in many respects the most important attribute He found that a nation's most successful global industries were the ones in which there was the most competition domestically This Porter suggested was because intense domestic competition results in firms innovating faster and expanding more quickly and intensely overseas

Porter also found that firms have general tendencies with frequent specific exceptions to see goals choose strategies and organize in distinctly nationally recognizable patterns   According to Porter successful Italian firms tended to be small to medium sized privately owned and operated like extended families while in Germany successful firms tended to be strictly hierarchical in organization and management structures, and top managers usually [illegible] Italian companies tend to be global i[illegible] footwear, and packaging machines [illegible] emphasize focus, customized products, niche marketing, and [illegible] management systems perform best in technical or engineering oriented industries—optics, chemicals, complicated machinery, complex products require precision manufacturing, development and after-sale service, all of which benefit from a rigorous management structure (Porter, 1990b, p. 81).

Similarly, Porter suggests that corporate [illegible] goals reflect the characteristics of national capital markets and the compensation practices for managers" (Porter, 1990b, p. 81). In countries such as Germany and Switzerland, banks hold substantial percentages of corporate stock for long term appreciation. "Companies do well in mature industries where ongoing investment in R & D and new facilities is essential but returns may only be moderate" (1990b, p. 81). Conversely, the U.S.A., with its large pool of risk capital, wide spread trading of stocks, quarterly and annual dividends, and annual management bonuses, will do well in relatively new industries like software and biotech but will face strong pressure to underinvest in mature industries, where rates of return are likely to be lower.

Thus, Porter suggests that the goals of publicly held firms reflect the characteristics of national capital markets and that the confluence of goals and capital markets lead to three general influences on a firm's success in global markets. First, a fit between the goals of the capital market and the industry is needed to facilitate global success. Second, different national capital markets [illegible] different goals [illegible] of industries Third the influence [illegible] capital markets is [illegible] related to the need for capital Thus a firm could [illegible] the capital market sets counter productive goals Lastly Porter [illegible] suggested that individual goals and attitudes such as compensation attitudes toward risk and professional pride also exert and influence on company performance independent of financial markets

Government Porter thought that the role government plays in creating advantage was at best secondary Government policies could only be helpful in those industries where the determinants of advantage already existed Government can raise or lower the odds of success but lacks the power to create advantage in the absence of other favorable factors Foreign exchange controls, limiting foreign direct investment, limitations on licensing technology import restrictions export expansion policies restraints on the movement of domestic or foreign managerial personnel and controls on international information flows are all examples Porter cites Thus Porter sees government as introducing distortions into international rivalry rather than being the creator of the domestic marketplace

Critique Porter s framework represents a substantial attempt to describe the determinants of contemporary international business competition As such it is an admirable enterprise and the most comprehensive view of the nature of international business rivalry to date However it is more descriptive than normative particularly with respect to the firm which in reality is the most common agent of international exchange

Specifically then Porter's work suffers [illegible] shortcomings First Porter's framework is extremely comple[illegible] vague in explaining how the four components of the "diamond [illegible] to create sustainable competitive advantage for the firm Second Porter's framework suffers from a lack of managerial prescriptions Other than exhorting firms to pursue innovation managers are offered little advice on how their firms can become more competitive vis a vis their international competitors Third capital markets and labor practices are described without explaining how they came into existence Understanding why capital and labor markets differ among nations might facilitate the development of more effective corporate strategies Lastly in my opinion Porter fundamentally misses the central role that government plays in creating international bases of sustainable competitive advantage Instead he focusses on the secondary role that government can play that of introducing distortion into international competition protecting and/or subsidizing domestic firms while inhibiting foreign firms from entering domestic markets

Porter's inductive approach to the study of the competitiveness of nations was surprising in one major aspect Although consistent with his earlier work (Porter 1986) which emphasized industry structure as the driving force in international competition Porter did not attempt to systematically integrate what he was saying about international bases of comparative advantage with his earlier work on domestic business strategy (1980, 1985)

Summary

As one can see by this [illegible] international economic [illegible] literature has had a tendency to [illegible] and classificatory issues that are of limited utility to managers. More recent work (Dunning & Pearce 1982, Porter 1990b) has suggested that international business strategy is a result of country/industry structure/firm advantage. Country bases of advantage can stem from home host country locational advantages (Dunning & Pearce 1982), from "phenotypic" advantages described by the biological theory of trade theorists (Dinopolous 1988) and/or from one or more of the four "bases" in Porter's diamond (1990b). Currently, the net result of this line of research is that no definitive theory of international trade now exists. Perhaps one such reason is that the current models are trying to accomplish too much. Porter, for instance, has a goal of influencing both international public policy and corporate managers.

Conversely, domestic strategy models are considerably more focussed. They are geared toward producing and sustaining competitive advantage. Perhaps by identifying the salient attributes of countries, and combining that new knowledge with what is known about industry structures and firms, optimal international bases for attaining sustainable competitive advantage might be identified.

Strategy/Industrial Organization

As Weitz and Wensley (1984) point out, the term strategy can refer to "the skills and decision making process of the executive (process) or to a specific decision made by the executive" (content) (1984, p. 4). In this paper strategy is used to ide [illegible] firms rather than the process by which such decisions are made.

The strategy content literature examines decisions regarding the goals, scope and/or competitive strategies of firms or of one or more of their business units (Fahey & Christiansen, 1986). Typically strategy content is used synonymously with strategy formulation. Although it is possible to view implementation as strategy content as well, this paper will restrict its discussion to the more commonly held view that equates formulation with content.

Scope/Industry Structure

Studies of corporate diversification are what began the empirical work on strategy content. Rumelt (1974) conducted the first comprehensive study of diversification. Rumelt found that diversification did significantly effect firm performance, particularly constrained diversification. Constrained diversification builds on a single corporate strength or resource associated with the original business unit. Christiansen and Montgomery (1981) attempted to replicate Rumelt's earlier work. They found that when certain "outlier" firms were eliminated from the analysis the significant relationship between firm performance and diversification strategy disappeared. Other scholars examined the constrained diversified firms (Bettis, 1981; Bettis & Hall, 1982; Rumelt, 1982) and identified several moderating variables, notably market share, high advertising, and R & D expenditure levels. Bettis (1981) in particular suggested that focussing on a firm's core strength and expanding to new markets when that core strength could be used to erect entry barriers could have quite positive effects on firm performance.

Work on the PIMS model further examined the market [illegible] advertising and R & D relationships. Although early work (Buzzell [illegible] & Sultan 1975; Gale 1972; Catte 1980; Hom 1980) confirmed the [illegible] findings, more recent work has called much of the earlier PIMS work [illegible] question. Woo and Cooper (1981) and Hamermesh, Anderson and H[illegible] (1978) found that low share business could be quite profitable. More recent work by Woo (1983) also showed that leading market share firms did not necessarily have high profitability. Hambrick, MacMillan and Day (1982) used the BCG framework and found that the market share/profitability relationship only held for 'star' corporations. Zeithaml and Fry (1984) found that market share and profitability increases appear concurrently in many circumstances involving mature industries. Schendel and Patton (1978) replicated the earlier PIMS work and found the initial results that increases in market share and profitability were related when industry was taken as a whole but if the industry were broken into 'strategic groups' a negative relationship emerged. As Fahey and Christensen state "to the degree that the positive relationship is an artifact of pooling businesses with different strategies it is not meaningful as either a basis of explanation or a guide to action in a particular product marketing setting" (1986 p 174). Rumelt and Wensley (1981) found that the linkage between market share and profits was due to "stochastic shocks" which simultaneously affected both market share and profitability. Thus Rumelt and Wensley suggest that this linkage may be spurious. Jacobson (1990) puts the final nail in the coffin of PIMS research. By placing the analysis in a dynamic (pooled cross sec[illegible] time [illegible] between share and profitabi[illegible]

The findings concerning concentrated d[illegible] and industry influences found in the above business policy li[illegible] are consistent with the writings in industrial organization [illegible] and B[illegible] (1968) suggest that industry structure sets the limits on the strategies that a firm can employ in attempting to achieve its goals. More specifically, Bain developed the notion of entry barriers. Although they can take many forms, the net effect of entry barriers is to increase the difficulty of new competitors choosing to compete in existing product markets. As a consequence of high entry barriers, high profitability can be more easily sustained.

Although entry barriers were one of the first components of industry structure, several more recent developments in industrial organizations have allowed for a more complete understanding of what is meant by industry structure.

Economies of scale exist where unit costs decline as the amount of output increases. Scale economies are related to increasing returns to scale but are not synonymous. Returns to scale can provide a technological basis for scale economies but so can price effects and/or contractual financial effects (Tellis 1988).

Economies of scope exist when it is less costly to combine two or more product lines in a single firm than it is for two firms to produce them separately. Where this occurs, economies of scope are said to exist (Panzar & Willig 1981).

When unit costs drop over time as cumulative production increases, learning (sometimes called experience) effects are said to exist (Spence 1981).

Economies of scale, scope and learning (experience) effects all have the effect of lowering unit costs producing leverage for the firm vis a vis its competitors. For the remainder of this paper the term leverage will be used to denote any and/or all of these effects. Leverage is one important method of creating entry barriers. New entrants in high leverage industries will compete at a cost disadvantage.

First mover advantages (Williamson 1981) are another way entry barriers can be created. They can do so in at least two different ways.

Patents. Patents are a consequence of successful application of R&D expenditures. Patents can provide an entry barrier because proprietary knowledge provides a gatekeeping function as to who may enter a product market (Grossman & Shapiro 1986). However, patents do not assure success. Firms must commit resources to viable market applications of the patent. History is replete with examples of products invented by one firm being utilized much more effectively by rival firms (Porter 1985).

Technological spillovers are another advantage of innovation. This is where innovations in one product line can be taken advantage of in another. Spillovers can occur between product lines, firms, industries and nations. The more a firm can limit spillover to its own firm the more advantage it can reap from spillover effects (Robinson 1986).

Thus, innovation and leverage appear to be two of the major defining characteristics of industry structure. Other possible characteristics might include the number and competitiveness of the firms (Porter 1990a).

price sensitivity (Day 1984) as well as the opportunities [illegible] expansion of markets (Zeithaml & Fry 1984)

Generic Strategies/Strategic Groups

Although industry structure does much to delineate the strategic options available to a firm, it does little to suggest to a firm which strategy options a company should choose. Industry structure analyses, as the name suggests, focus primarily on industries as the unit of analysis. Many researchers (Hofer & Schendel 1978 Beard & Dess 1981 Hawes & Crittenden 1984) feel that industry structure analysis focusses on corporate level strategies (what business/industry should a firm be in?) while business level strategies (which product/market should a firm be in and on what strategic basis should a firm compete?) may differ on a firm or cluster of firms basis. Various taxonomies exist which purport to classify firms based on the strategies they (should) employ. Such strategic taxonomies are increasingly referred to as generic strategies or "strategic groups."

The term "strategic groups" was first used by Hunt (1973) to note that clusters of firms in the "white goods" industry possessed differences in their degree of product differentiation, diversification, and vertical integration. Problems facing potential entrants differed depending on which cluster or strategic group a firm was considering. McGee and Thomas (1986) summarized this line of inquiry quite comprehensively. They conclude that the strategy content literature is the most obvious body in which to apply these taxonomies.

The scope of strategic taxonomies is quite breathtaking. Galbraith and Schendel (1983) found six "meaningful strategy types" (p. 164) in their types using the PIMS S[illegible] industrial products harvest builder [illegible] and cashout Hawes and Crittenden (1984) found "[illegible] unique strategic behavior patterns" (p 200) in groceries marketing generic brands aggressive initiators (first movers or "market pioneers") consistently showed superior levels of performance Robinson and Pearce (1985) found four "distinct internally consistent patterns of strategic behavior (p 36) efficiency service product innovation and brand identification strategies Robinson (1988) in examining industrial goods businesses found that market pioneers tend to dominate market segments This finding was consistent with Urban et al (1986) who found similar advantages for pioneering brands as well as Robinson and Fornell's (1985) finding for pioneering businesses These typologies along with many others (Utterback & Abernathy 1975 Hofer & Schendel 1978 Vesper 1979 Miles & Cameron 1982) all have one element in common they have never been replicated As Fahey and Christensen put it " this work reflects many of the characteristics of an emerging research area So far the research is largely noncumulative a set of unrelated efforts to taxonomically identify strategy or environmental types [Moreover] little convergence has emerged in the categories of strategy types" (1986, p 175)

One exception to the lack of convergence is the reoccurrence of innovation or pioneering advantages described above A second point relates to Fahey and Christensen's observation that the area tends to be noncumulative Two notable exceptions are the typologies of Miles and Snow (1978) and Porter (1980 1985) Both typologies have been reexamined conceptually and empirically [illegible] recapped below

Miles and Snow The strategic typology of Miles and Snow (1978) identifies four generic strategies based on field studies in four industries defenders prospectors analysers and reactors Defenders engage in little or no product market development They maintain secure niches competing primarily on the basis of price quality or service Prospectors are market and product pioneers They exploit first mover advantages quite heavily primarily competing by stimulating and meeting new market opportunities Analysers make fewer and slower innovations than prospectors but are more innovative than defenders All three of these strategies proved to be fairly successful according to Miles and Snow They concluded that these three strategies could be equally effective in any industry regardless of the industry structure or environment A fourth strategy reactors was related to low levels of performance Reactors were firms who tended to not develop stable attitudes toward product and market innovation

Hambrick (1983a) found partial support of the Miles and Snow (1978) typology but discovered that performance depended on the industry structure and environment (i e stages of the product life cycle high versus low growth markets and high versus low product innovation industries) Similar to other research (Miller 1986 Snow & Hambrick 1980 Douglas & Rhee 1989) concluded that "Not only were [Miles and Snow s] different strategy types associated with different functional attributes and policies notably in product R&D and marketing expenditures but also there were differences in the effectiveness of the various strategies depending on the environment A prospector strategy for example was found to be more effective in an innovative industry though not necessarily in a high growth environment (1989 p 439) Thus the Miles and Snow typology does not appear to be as generalizable as was initially suggested It does however highlight the importance of innovation in achieving superior performance

Porter Perhaps no taxonomy of generic strategy has been more influential in the past decade than the one proposed by Porter (1980) As Hambrick (1983) stated "Porter s typology of generic strategies seems especially useful because (1) it builds on previous findings and (2) it is appropriately broad but not vague (p 688) Similarly White (1986) commented that the Porter framework s appeal is based in part on its having " a few critical dimensions yet has strong theoretical underpinnings (p 220) Porter identifies three generic strategies differentiation cost leadership and focus (niche) Each of these strategies may be viewed as a method by which firms can achieve relative superior performance Two dimensions underlie these strategies (1) basis of competitive advantage (differentiation versus cost) and (2) the breadth of the target market (broad versus narrow) These generic strategies represent ideal types" and are therefore somewhat problematic to operationalize

This may in part account for the ambiguity in the attempts to test Porter's typology Empirical results (Dess & Davis 1984 Galbraith & Schendel 1983 Hambrick 1983a) partially support the framework But the lack of consistency in empirical findings (Miller & Friesen 1986) point to the possible existence of contingencies within the framework Dey

(1984) has linked the effectiveness of generic sc[illegible] [illegible] factors specifically focussing on consumer perceptio[illegible] [illegible] Hambrick (1983a) noted that "it is simply not accurate [illegible] [illegible] generic strategies are equally viable within an industry [illegible] [illegible] "generic" strategy is really a composite of numerous variations not [illegible] of which are equally suited to a given situation" (p 702) Porter (1985) conceded that indeed there may be linkages between generic strategy and industry structure although the linkage is not made explicit "cost advantage and differentiation in turn stem from industry structure" (p 11)

Miller and Friesen (1986) elaborate this point "Some industrial product and capital goods industries may exhibit relatively pure types [of generic strategies]; we do not feel that this would be true for consumer durable industries" (p 39) What might these contingencies be?

Cost leadership Day (1984) links the viability of a cost strategy to customer price sensitivity This is a necessary but not sufficient condition Price sensitivity conveys a market advantage to a firm pursuing a low cost strategy but it does not incur greater profitability Gas wars are good illustrations of this point in such instances cost leaders can also be loss leaders and eventually be driven out of business

What is also necessary is leverage High leverage industries can convey cost advantages to firms through increases in production High leverage can occur in many possible ways superior access to raw materials and/or channels of distribution or advertising (Murray 1988) can achieve modest levels of leverage However each of these methods cannot continue to significantly lower unit product costs. They reasonably quickly achieve asymptotic levels.

Leverage can also be achieved through product and/or process technology (Abernethy & Utterback 1978). One obvious way is through scale economies, although as Porter (1980, p. 12) points out, not all industries possess significant scale economies. A second way is through experience/learning effects. But as Ghemawat points out, "Experience curve slopes vary widely from product to product ... in some industries the slope may be as steep as 60%; in others it may not occur at all" (1985, p. 144).

I suggest that high value added industries are most likely to exhibit high experience effects. Conversely, industries in which inputs provide a high percentage of overall costs are likely to produce little or no leverage. Lastly, certain types of industries may actually have negative leverage (which I will call discontinuities): increasing production/distribution/promotion beyond certain levels may incur additional fixed costs which raise the unit price of the good. An illustration of this would be high transportation costs relative to production costs such as in imported concrete.

Differentiation. If cost leadership strategic success is dependent on price sensitivity and leverage, then product differentiation is dependent on market segmentation and perceived differences in product/brand performance. Thus, if cost leadership strategies are essentially production and economics based (although advertising can play a major role in price sensitivity), differentiation strategies rely heavily on marketing theory for guidance.

In a differentiation strategy [illegible] should be bundled and offered to which market segments. From a strategic viewpoint, Porter (1980) answers that a firm should enter as many product markets as it can and still maintain superior product value and resource superiority in each market. Since a firm has finite resources, it cannot possibly attain a leadership position in all possible segments. Therefore, a firm should concentrate on those segments in which it can maintain some measure of sustainable competitive advantage through superior product value which will also facilitate the firm's goal. Therefore, it does not make sense for firms to designate segments which do not help achieve and maintain superior firm performance.

Differentiation strategies work best in industries where price sensitivity is not great (Murray, 1988) within market segments. Thus, industries in which product markets can be created in which customers, when making purchase decision, give weight to product attributes other than price (Murray, 1988, p. 394) provide a necessary condition for product differentiation strategies to be successful. Other industry characteristics which facilitate the use of a differentiation strategy include: (1) low industry leverage (Porter, 1985) which limits competitors using cost based strategies, (2) great variability in the attribute bundles that appeal to consumers (Armstrong, 1987) allow firms to continually innovate, (3) product quality is based primarily on subjective criteria (tastes) rather than on objective performance standards which allow firms to actually attempt to manipulate the decision (Rotzoll, 1986) criteria, (4) rapid rates of innovation which inhibit competitors from pursuing production based cost advantages (Cieply, 1983).

and [illegible] differentiation based on quality reliability [illegible] provide long term bases of advantage (Murray 1988)

Thus innovation appears to undergird the differ[illegible] option where innovation cannot be easily offset by [illegible] Market pioneers are likely to dominate such product [illegible] 1988)

Focus (niche) Of the three generic strategies focus [illegible] have created the greatest confusion (Murray 1988 p 393) Most [illegible] (myself included) view focus as being a niche strategy Th[illegible] that a focussed strategy is merely a differentiation strategy [illegible] to a narrow range of product markets Porter (1985) posited that [illegible] breadth strategy is independent of cost or differentiation Fo[illegible] firms could pursue either cost or differentiation they did not have to [illegible] differentiating firms This confusion I believe stems from the [illegible] that Porter views differentiation as being merely product based where[illegible] marketers see differentiation as being product market based If Port[illegible] viewed markets as being differentiated (segmented) then this confusion would disappear Moreover cost and differentiation strategies are [illegible] totally mutually exclusive Firms pursuing differentiation still find [illegible] in their interest to pursue cost advantages within the differentiation framework and vice versa It is the relative importance of the [illegible] determines a firm's generic strategy rather than the presence or [illegible] of one or the other

Niche strategies work best in industries where (1) it is possible to identify many segments relative to the number of firms this nor[illegible] easily allows a firm to avoid competitors (2) mobility barriers make [illegible] distri [illegible] are relatively price insensitive [illegible] likely to be successful and differ[illegible] attributes such as quality reliability [illegible] succeed (Peters 1987) (4) first mover advantage [illegible] product [illegible] can provide a basis for long term differentiation (Robinson 1988 [illegible] a firm can build brand equity which would make it more difficult [illegible] competitors to offer suitable substitutes

Summary

Thus we can see that some work has been done on identifying the contingent relationships between generic strategies and industry structure. Two industry characteristics appear to emerge as driving forces (1) product and/or process innovation and (2) leverage. Miles and Snow (1978) and subsequent researchers showed that innovation appears to have the greatest impact in high innovation industries (Hambrick 1983a). Similarly Porter's "ideal" generic types appeared to work best in predicting industrial sales but less well in consumer industries (Miller & Friessen 1986). These findings help provide a basis for constructing a contingent model of industry structure and firm strategy.

However, this model would be a domestic one. In order to internationalize the contingent relationship it is necessary to see how these relations hold in an international environment. I begin with a discussion of previous findings on international business performance.

International Business Performance

The international business literature [illegible] empirical research concerning each of two measures of firm performance sales growth and profitability Each body of literature focuses on finding the determinants of successful performance From this perspective firm size and past performance are seen as the [illegible] superior performance

Growth Of the two bodies of literature the size growth hypotheses are the oldest It seems odd that with the vast amount of research undertaken in the business sector that so little of it concerns the relationship between the size of a firm and its growth rate The commonly held idea is the one Servan Schriber based his response to the American Challenge upon larger size implies faster growth It is a concept freely derived from the justification of economies of scale and became a concept articulated by the popular press in the late 1960s (Galbraith 1968) Yet as Forrester (1970) implies social reality is often counterintuitive The relationship between size and growth appears to be one of these counterintuitive examples

Bain in his work Barriers to New Competition points out that there exists a certain minimal size below which a firm cannot operate efficiently This minimal size varies according to the given industry (Bain, 1956) For example Bain suggests that the minimal size required for a durable goods industry is much larger than for a nondurable goods industry Mansfield took Bain s conclusion one step further He found that there were three major limiting factors which created the minimal size [illegible] innovations (Mansfield 1962)

Mansfield found that the higher the profitability [illegible] accumulation or innovation the larger the minimal [illegible] ensure a firm's survival The findings of Mansfield and [illegible] confirmed Galbraith's popularized thesis that larger size implies faster growth After all firms below the minimum scale went out of business hence had a growth rate of zero while firms at or above the minimum size had growth rates of greater than zero This would imply a relationship between size and growth similar to the one Galbraith suggested

Hart (1956) suggested that above the minimal size all firms would follow Gibrat's Law which holds that the probability of a firm growing X percent is independent of its size Gibrat's Law was tested by Simon and Bonini (1958) who studied the growth rates of the 500 largest U S firms for the years 1954 1956 They found that there was no difference in the growth rates that could be attributed to size This finding was later confirmed by Singh (1968) who used substantially the same data base as Simon and Bonini for a later period

However Hymer and Rowthorn (1970) found that Gibrat's Law held for all but the very largest and smallest of the top 200 American and top 200 non American MNCs For the very large MNCs Hymer and Rowthorn found size varied directly with growth For the smallest MNCs size varied inversely with growth Thus Hymer and Rowthorn suggested a curvilinear relationship between size and growth It is this parabolic function which is used in the more recent studies determining superior firm profitability

Profitability studies [illegible] curvilinear size growth rela[illegible] nonlinear functions for firm [illegible] The studies findings are summarized in Table [illegible] Jacquemin and Lichtbuer (1973), using data taken from Fortune compared the top [illegible] British and EEC industrial corporations Profit defined as the ra[illegible] net profits to assets (ROA) was found to be significantly related [illegible] nationality They also found that while EEC firms grew faster [illegible] British ones EEC profitability was much lower This finding led th[illegible] suggest that perhaps there might be a trade off between the [illegible] objectives

Buckley, Dunning and Pearce (1978) chose larger samples (up to [illegible] firms) more country groupings as well as three sample years (1962 [illegible] 1972) They found country effects as well as a significant effect [illegible] multinationality (number of countries in which a firm operates) for American firms Multinationality was not significant for European firms Data on sales assets and profits were taken from various issues of Fortune U S firms were found to grow at significantly faster rates than European firms For U S firms industry effects were found for oil chemicals and electrical engineering firms which were found to be significantly more profitable than the norm Differences within non U S firms " they write "are better explained by nationality of parent than by industry grouping " (1978 p 751) Profitability was defined once again as ROA

Table 2.2
Profitability Studies

Study	Variables	Method Data	Time Frame	Findings (Significant Variables)
Haar (1989)	Size past profit (1975 1979) state ownership nationality (Japan US EEC) industry (SIC)	Fortune (500) (Regression)	Cross sectional (1980)	Past profitability and industry (for US only) state ownership nationality
Jacquemin & Lichtbuer (1973)	Profit nationality industry	Top 100 EEC and British Industrial Corp. (Comparison of means)	Cross sectional (1970)	Nationality important (1970) only 2 of 8 industries significant
Buckley Dunning & Pearce (1978)	Nationality Industry Degree of Multi nationality (Foreign/ Total Sales	Fortune (500) (Regression)	Cross sectional (1972)	Nationality degree of multinationality (for US firms only) Industry US only)
Rugman (1983)	Nationality Sales State Ownership	Fortune (500) Ten year average 70 79) (Regression) (Except firm size 1979)	Cross sectional (1979)	Nationality and [illegible] ownership
Kumar (1984)	Past profitability Sales Degree of Multinationality Industry	British data set (Regression)	Cross sectional (1980)	4 of 18 indus[illegible] variables all [illegible] rest
Brouthers (1992)	Relative Size industry Structure Nationality Industry X Nationality Other dependent measures sales Growth Capital Intensity Labor intensity	Fortune (500) (ANOVA and Regression)	Longitudinal (1978-1990)	Expected [illegible] significant

Rugman (1983), using data from Fortune, employed a ten year average (1970-1979) profitability measure for the fifty largest American-European MNE's. Rankings were for 1978. He found that American firms earned significantly higher profits than their non-American counterparts. This result, however, might be explained by "the presence of state owned enterprises (SOEs) in the sample" (1983, p. 13).

Kumar (1984), in a comparison of domestic and international firms based in the U.K., found results similar to those of Jacquemin and Lichtblau (1973) in that a trade-off existed between a firm's growth rate and its profitability. Kumar found that past profitability very significantly improved the explanatory power of the equations.

Haar (1989) once again used Fortune data (1976-1986). Two five year averages (1975-1979, 1980-1985) were used to compute past and current profitability. Unlike previous studies, Japanese firms were included in the analysis. Past profitability proved to be the best single predictor variable, as it was in the Kumar (1984) study. Both the Japanese and EEC firms exhibited significantly lower profitability than the American firms. When past profitability was entered into the equation only the Japanese exhibited significantly lower profitability. SOEs also received significantly lower profitability. Given the static nature of the equation, it is difficult to interpret the results.

The most recent study, Lee and Blevins (1990), compared the growth and profitability of American, Japanese, Taiwanese, and Korean firms. Once again Fortune was a source for much of the data and a cross sectional multiple (OLS) regression analysis was used to assess relative firm performance (profitability and sales). The sample included both manufacturing and for [illegible] [illegible] [illegible] to ROA [illegible] conformed to expectations (U S [illegible] Japan [illegible] the growth [illegible] results were somewhat surprising [illegible] Japan trailing the U S

Thus, previous research tends to be cross sectional and [illegible] utilize Fortune data. Studies consistently show nationality differences although the specifics vary. The U S tends to consistently produce the most profitable firms but the fastest growing firms vary. Profitability and growth sometimes appear to be incompatible goals and sometimes [illegible] Past profitability seems to be the best predictor of current profitability, but this proposition has never been tested with longitudinally data. Lastly, the results appear to be notoriously atheoretical, merely "barefoot" empiricism. What is needed is a unifying theory, one which can put these disparate results in a longitudinal context.

International Strategy Research

Douglas and Rhee (1989) provide an exploratory look at the generalizability of the Miles and Snow (1978) and Porter (1980) frameworks. Previous work in Canadian and/or European markets had primarily examined the relationship between market structure and market share and/or profitability (Hart & Morgan, 1977; Jenny & Weber, 1976; Lambin, 1976) rather than on strategy types. Douglas and Rhee used PIMS data to identify 187 businesses operating in Europe (120 were European, 67 were American) and 250 domestic American firms. They found that "the same underlying dimensions characterize competitive strategies and the same competitive strategy types may be identified irrespective of market location" (1989, p. 444). However, they did find that firms in high growth markets performed considerably better in Europe than in the U S

Firms were [illegible] likely to market established products in Europe [illegible] products Overall lower financial performance [illegible] operating in Europe

These findings buttress previous work which suggests [illegible] in foreign markets pursue different strategies than domestic [illegible] Douglas & Reddy 1987 Douglas & Craig 1983 Schaawia 1983)

The results however appear to somewhat conflict with other research which suggests firms from foreign countries pursue strategies which differ from those of American firms (Franko 1976 Sawiee 1982) Doyle Saunders and Wong (1986) found that both domestically and internationally British firms were much less innovative and aggressive than either their American or Japanese competitors Other studies using a case study approach, provide anecdotal evidence that firms with different national origins use different strategies (Hout Porter & Rudden 1982 Hamel & Prahalad 1985)

Why might firms based in different countries pursue different strategies? Classic international business research has suggested a variety of possibilities differences in organizational cultures (Hofstede 1980 Haire Ghiselli & Porter 1966) as responses to phenotypic environment conditions in the domestic market which result in unique products which are then exported (Porter 1990a 1990b) different internationalization advantages (Anderson & Coughlan 1987 Gatignon & Anderson 1987) or differential infrastructure or distribution requirements (Vachani 1985 Keegan 1984)

However Douglass and Rhee suggest another possible reason [illegible] of [illegible] different national origins or organizational types may pursue different competitive strategies due to different management philosophies or goals and objectives (1989 p 438) More specifically I would add the perspective that it is more than merely a matter of managerial philosophy Firms from different countries set different goals and objectives and select strategies not so much because of managerial philosophy but because of different government policies which influence corporate attitudes toward production investment employment growth and profitability Just how governments do this is explained in the next chapter Once governments' influence on firm goals is described a framework will be presented which integrates home government influences industry structure and firm strategy The integrated model represents an attempt to theoretically explain the contemporary pattern of international corporate competition in the emerging global economy

CHAPTER 3
THEORETICAL FRAMEWORK AND PROPOSITIONS

Introduction

Chapter 3 contains my new theory of competitive strategy, a propositional framework, as well as a set of propositions to be tested. The theory lays out in great detail four possible types of economies which are derived as a consequence of controlling (or not regulating) national capital and/or labor markets: production driven, market, command and industrial democracies. How these economy influences create synergies or "strategic fits" with certain ideal industry structures is explained and propositions are generated. Lastly, Porter's (1980, 1985) model of intra-industry competition (leader, challenger, niche) is added as a possible "third layer," economy type and industry structure being the first two. Thus, what is being proposed is a three (economy type) by three (industry structure) by three (relative industry position) interactive model with the world's most successful firms being those whose home country economic public policies, industry structure and relative industry position provide an ideal strategic fit. The propositions thus generated will be tested by using a data set described in Chapter 4.

As was stated earlier, the 1990s hold the promise of being the decade of the globalization of the world economy. By globalization of the world economy I mean the continuing emergence of (1) global market segments and (2) global firms which compete in them. Thus, it is not surprising that [illegible] global strategic competition

Along with this growing [illegible] theoretical frameworks (Dunning and Pearce 1982 Porter 1990a 1990b) and descriptive studies (Douglas & Rhee 1989 Doyle Saunders & Wong 1986 Morrison 1989 Porter 1990a 1990b) The goal of this emerging body of literature is to explain the contemporary pattern of international strategic competition

Although these studies encompass a variety of approaches to the question an underlying belief they all have in common (sometimes articulated sometimes not) is that there is something that happens to the nature of strategic competition once firms cross national boundaries and "go global" These scholars all believe that valuable and unique knowledge can be acquired by viewing strategic competition from an international perspective To a large extent they have also agreed that it is the addition of some country-based influence that explains the difference between domestic and global competition

However there is considerably less consensus on exactly what that country-based influence might be Dunning and Pearce (1982) suggest that it might have to do with home country host country influences Porter (1990a 1990b) suggests that locational cultural and resource based advantages vary from country to country and help explain the pattern of competition Industry structures coincide with unique locational cultural and resource based advantages to produce international bases of sustainable comparative advantage Porter's view draws heavily from the "biological" models of international trade Others (Douglas & Rhee, 1989

Morrison 1989 [illegible] 1986) [illegible] practices may differ from country to country and this [illegible] success differentials Certainly there appears to be [illegible] for suggesting that management practices and strategies [illegible] from country to country Morrison (1989) for example found that American [illegible] tended to focus on regional rather than global markets Moreover [illegible] firms tended to pursue high technology and quality strategies and [illegible] cost based strategies Other studies have noted the long term time frame of Japanese management (Kono 1984) the short run orientation of American managers (Ouchi 1980) and the tendency of European managers to focus on longer term profitability (Samiee 1987)

Each of these perspectives partially contribute to what we know about the nature of global strategic competition In a sense what we are being presented with is a giant "global" jigsaw puzzle of sorts with each of the scholars contributing a piece without quite knowing what the whole looks like

This paper represents an attempt to put the pieces of the puzzle together The goal of this paper is to present a possible unifying framework one which is explanatory predictive and perscriptive

As in the case of previous efforts country based influences are what differentiate this international model from domestic strategic models The approach is somewhat similar to other previous attempts (Dunning and Pearce 1982 Ring 1990) in that politics is the differentiating variable Government and their public policies can provide a basis for producing a sustainable competitive advantage in the global marketplace However unlike previous work it is being suggested here that governments, through the creation of certain laws and regulations (particularly with respect to capital and labor markets), largely determine their firms' strategic objective(s). This in turn strongly influences a firm's choice of generic strategies and selection of marketing mix variables. From this perspective, management practices are largely seen as a consequence of the capital and labor markets governments create. From this perspective, industry structure, rather than being the key to understanding global competition, merely restricts the number of generic strategies available to a firm. The actual strategy chosen by the firm is a consequence of the firm's relative resource position in the global industry. Thus, I have tentatively labeled the G (government policies), I (industry structure), FS (firm strategy) model or GIFS model of global strategic competition.

Although the idea of a nation's government determining the objectives of its businesses is relatively new to the strategy literature, it is a fairly old and well known concept to students of politics. Indeed, the primary goal of the American constitution was the creation of an "extended commercial republic", according to Hamilton, Madison and Jay, the "anonymous" authors of The Federalist Papers. The founding fathers drew heavily on the work of Adam Smith (1776) who was a staunch advocate of free markets. The Constitution differed fundamentally from the Articles of Confederation which had preceded it by expressly promoting the free movement of capital, labor, and products among the thirteen states. With respect to international trade, the Constitution provided for Congress the right to levy tariffs. In fact, tariffs and excise taxes were the primary means of revenue for the federal government until shortly [illegible] passage of [illegible] twentieth century the Americ[illegible] domestic free market economy relati[illegible] protected [illegible] ravages [illegible] international trade competitors.

Just as the American government facilitated the creation of a market economy, other countries and regions of the world created governments which directed the creation of other types of economies. Western Europe, for instance, in the postwar period, for the most part has been governed by democratic socialistic parties. These parties have, for the most part, the goal of securing and promoting employees' rights in the workplace while providing a stable economy and work environment. For instance, in Germany "committees of participation" (workers) must approve any changes management wishes to make in the workplace with respect to employment and compensation issues (Albers, 1990). Such a regulated environment greatly restricts management's ability to be flexible or adapt to short run fluctuations. Thus, managers have little choice but to emphasize long run goals, objectives which will give managers the time frame they require to produce necessary changes.

The second world's command economies are perhaps the most blatant example of how governments shape economies and how, in turn, managers respond to the parameters set by government. These governments heavily regulate labor and capital in setting production goals. Prices and production are determined by central planners rather than by the market. As the world is currently seeing, in the absence of the use of threats or force to elicit compliance, such systems lack the means to provide sufficient incentives to make their industries competitive and/or productive

These thumbnail [illegible] shaping their economies provide the [illegible] goals In this paper a framework will be [illegible] systematically lay out a typology which predicts the [illegible] orientations of a firm based on the economic forces governments create This government typology will then be integrated with models of industry structure and firm resources to create a theoretical framework which will predict the pattern of global competition Lastly propositions derived from the theoretical framework will be presented and explained I begin this discussion by presenting the government based model of firm strategic goal orientations

Country (Government) Model

Market economy Table 3 1 displays the government based model of firm strategic goal orientations Governments inevitably explicitly or implicitly create policies to stimulate either production based or market based economies This is done by regulating the flow of capital and/or labor markets Regulating neither the flow of capital nor labor results in a market economy In such systems both capital and labor flow to where they can obtain the greatest return Such free flows result in a competitive environment in which capitalists and laborers are continually looking for ways in which to improve their rate of return Such a system produces a short run profit orientation for business In order for firms to attract and maintain capital they must provide competitive short run returns on investment (ROI) Competitive wage structures must also be present to attract and maintain the best workers and managers But competitive wages add to costs which restricts profitability. [illegible] firms in such economies attempt to continually increase labor [illegible] as a means of being able to maintain both competitive wages and [illegible]. One of the easiest ways to improve labor productivity is to substitute capital for labor. However, in doing so, short run profitability is reduced. Thus, firms in market economies find themselves in a constant dilemma of having to increase capital investments (1) enough to increase labor productivity to maintain competitive wages but (2) not so much as to detract from profitability and therefore lose venture capital. This dilemma is in part what is responsible for the chronic "underinvestment" which characterizes these economies (Hill, Hitt, & Hoskisson, 1988). It also means that firms in such economies will be capital oriented but will not invest as heavily in assets as firms based in other types of economies. America is representative of such economies. Many American business practices mentioned by Ouchi (1980) and others (Lowenstein, 1988; Graves & Waddock, 1990) as being detrimental to firms building sustainable competitive advantages, such as quarterly budgets, forecasts, and dividends or annual performance reviews can be seen as a direct consequence of the short run bottom line orientation that characterizes market economies. Scholars and businessmen alike agree that the short term orientation is detrimental to the firm (Sherman, 1987; Labich, 1987). So why is it so prevalent in American firms?

The traditional business scholars' view (Berle & Means, 1935; Barber, 1970; Herman, 1981; Ouchi, 1980) has been that it is the separation of ownership from management which has lead to this short term orientation on the part of managers. From this perspective, managers are seen as pursuing

Table 3 1

Model of Country (Government) [illegible]

Goal Orientation	Time Frame: Short	Time Frame: Long
	(Command)	(Production)
Sales Growth (Market Share)	1 Totally regulated markets 2 Labor intensive	1 Regulated capital markets 2 Capital intensive
		Japan
	(Market)	(Industrial Democracy)
Profit	1 Capital intensive 2 Nonregulated markets	1 Regulated labor markets 2 Labor intensive
	America	Europe 1992

their own short-run self-interest at the expense of the long term interests of the firm. This results in what scholars have called "agency theory" problems: how to get the managers' goals to coalign with the firms' interest (Lal & Stalin 1986).

More recent scholarship has focused on the change in ownership patterns as the primary cause of the short run orientation (Mintz & Schwartz 1985; Graves & Waddock 1990). Institutional investors are seen as the driving force behind the short run orientation of American firms. In [illegible] institutions owned 12% of the shares listed on the New York Stock Exchange (Mintz & Schwartz 1985) By 1984 that figure had grown to almost 50% and by the year 2000 pension funds alone are expected to own 50% of all corporate equity in America (Graves & Waddock 1990 p 76) Institutional investors tend toward increasingly rapid portfolio turnover in order to secure short-term profits For instance in 1983 pension funds sold 62 percent of their stocks compared to only 21% in 1973 (Graves & Waddock 1990 p 76)

More recently because of their increasing dominance of equity markets institutional investors are finding it financially detrimental to sell stock just because they are unhappy with a firm s performance Increasingly they are becoming involved in corporate control Graves (1988) has noted that such involvement while increasing short run profitability has had the effect of reducing levels of R&D spending Hill Hitt and Hoskisson (1988) attribute the decline in U S competitiveness to short run myopic capital market behavior A most horrific example of institutional investors operating against corporate long term interest was when they conspired to force Allegis to reconstitute their board of directors and fire the current CEO because his long range plan to turn Allegis (United Airlines) from an airline company to an integrated travel company (Hertz Hilton and Westin) One year into the program with profits at less than one percent of sales the CEO was replaced and the acquisitions sold (Labich 1987 Sherman 1987) In my opinion that is why despite at least a decade of being chastised by some (Ouchi 1980) for retaining these practices American firms continue to operate from a short run perspective [illegible] behavior

Production economy In a marke[illegible] refrain from restricting exchanges in the capital [illegible] Employers hire and fire at will (subject to contractual obligations) and capitalists lend/invest money where they perceive they will obtain the best yields

In a production oriented economy capital markets are highly regulated in order to encourage the maximal long term production (usually but not always for export) of goods Mechanisms which encourage the creation of a production based economy include various policy instruments which facilitate long term sources of cheap capital for industry encourage continual R&D regulate plant capacity expansions and upgrades and protect firms from acquisition when their stock prices temporarily drop as a consequence of pursuing long range production objectives The net result of having such an arsenal of public policies is that firms in such a system will tend to pursue long range production oriented goals Success in such a system will have a tendency to be thought of in terms of sales growth The competitiveness of the firm will be gauged by its market share which over time measures a firm s sales growth relative to its rivals Profits are still a desireable outcome in such an economy as loans must still be repaid and investors satisfied but are seen as a by-product of engaging in long term productive enterprise rather than as a goal to be achieved in its own right (Kane 1984)

Japan The Japanese economy is a good example of a production driven society Although previous work has tended to credit recent

Japanese success [illegible] market [illegible] management practices (Athos [illegible] 1980) [illegible] tionistic policies at home and [illegible] abroad (Wol[illegible] (Johnson 1982) subsidizing and coordination of Jap[illegible] thesis here is that Japan's success is primarily due to [illegible] intervention in its capital markets which has created an [illegible] conducive to the pursuit of long term market share strategic goals.

Certain public policies have already been described. Savings were stimulated by a backward social security system, tight consumer credits and privately funded education (Uno 1987 p. 78). Protectionist policies coupled with a unique distribution system make penetration of the Japanese home market by foreign competitors very difficult (Jain 1990). This allows the Japanese firms to charge higher prices for their goods in their home markets than overseas (Keegan 1989). Thus Japanese consumers not only subsidize Japanese business through 'forced' savings but also through noncompetitive pricing policies. The Japanese government allows its firms to form domestic cartels whereby firms collude to maintain market share, high prices, and consequentially high domestic profitability (Sato & Hoshino 1984). Protectionist policies coupled with the nonenforcement of antitrust legislation allows Japanese firms (particularly the domestic leader) to move further down the experience curve (in high experience curve industries such as automobiles) and hence be at a lower cost point than their position in the global market place would dictate. Thus a typical Japanese firm has a lower cost structure than its global rival of similar size partly because of experience curve effects and partly because Japanese investors require substantially lower profitability on stocks than do other international capitalists and hence allow Japanese [illegible] keep the funds other firms must repatriate as profits [1] These [illegible] be used to further lower costs (and hence prices) or rei[illegible] upgrades or R&D

These views of the Japanese business environment are fairly well known However what is considerably less well known is who these "investors" are and why they are willing to behave so differently than other nationality investors The investors are the Japanese banks and insurance companies (Nishiyama 1984) It is the Japanese banking system whic undergirds the production economy orientation and encourages the low profit high growth orientation of the Kaisha

Japanese banking The Bank of Japan is the key to the Japanese economy "It is the sole note issuer the Government bank the source of last resort of the commercial banking community and the implementer of monetary policy" (Prindl 1981 p 65) Through the issuance and enforcement of several policies the Bank of Japan has devised a banking system which is clearly unique It s policies toward entry and exit overloan and overborrowing have each distinctly contributed to Japan s long run growth orientation Each is explained in greater detail below

Entry and exit Japan s attitude toward entry and exit in banking differs markedly from that of the U S A The guiding principle enforced by the Bank of Japan is that neither the establishment of new domestic banks nor the dissolution of existing ones is permitted No new banks have been established since the 1950s Nor has there ever been a situation in which a single bank has drawn on the resources of the deposit insurance system Contrast this with America where in 1983 more than 300 new banks [illegible] The assured continuance of their existence combined with Japanese laws and regulations forbidding takeovers allows Japanese banks to focus on long run objectives, free from the fears which plague most American bankers

Japan s financial structure has at least two outstanding and distinctive characteristics which additionally contribute to the long term production orientation of the Japanese economy They are commonly referred to as overloan and overborrowing Each is described below

Overloan Generally speaking overloan is the existence of loans and investments funded from sources other than deposits or equity capital so that reserve assets are consistently negative "In referring to over loan " Suzuki writes "as a special characteristic of Japan's financial structure one is concerned with the banking system as a whole being in debt to the Bank of Japan not with the condition of individual banks " (Suzuki 1980 p 5) City banks borrow these overloans from the Bank of Japan because the official discount rate is lower than short term money market interest rates Thus the more banks borrow the more profitable they become Although the common view is that Japanese banks also strive for increased long term market share (Minami 1986) a perspective consistent with the model being expounded here Suzuki points out that increased market share in a situation where interest rates are controlled directly results in profit maximization (1980 p 5) Thus it is not that profit is unimportant to the Japanese banks (who in fact are the capitalists in the Japanese economy) but rather profit is a consequence of pursuing long term market share goals

Overborrowing The practice of financing corporate growth through granting large amounts of low interest long term loans is known as over borrowing This results in Japanese firms having significantly higher levels of debt than their American and European counterparts It also results in excess demand for the loans Since the city Banks compete for the overloan funds which are used for overborrowing the Bank of Japan is in a position to dictate to the city Banks the size and recipients of these loans This practice is known as (Ballanger 1987) "window guidance" and results in the Japanese government selectively subsidizing specific Japanese firms Thus the Japanese government is in the position of largely determining which Japanese firms will grow and prosper This "window guidance" combines with previously described government policies to produce a growth oriented production based economy

Consequences of the Japanese Production Economy

There are at least nine strategic consequences of the Japanese adopting a production oriented economy They include (1) Japanese firms do not "play by the rules" (2) they lack a limiting strategic concept (3) they have goals which are not reconcilable with the goals of American or European firms, (4) they generally have high strategic stakes (5) they do not have comparable return on investment goals (6) they do not accept current levels of profitability: (7) they do not require cash generation (8) they have long time horizons and (9) they are not risk averse Each is explained in more detail below

(1) The Japanese do not play by the rules of American firms Short term profit maximization is the primary measure of success in American firms However in Japanese firms although profit is

impor[illegible] success is measured by market [illegible] In a study of 434 Japanese American and B[illegible] found goals and policies which are indicators of growth to be mor important for Japanese companies than for American firms In a second study of five hundred major American and Japanese companies the number one objective of Japanese firms was found to be market share number two was profit The number one objective of American firms was Return on investment number two was stockholder gain while market share was number three (Abegglen & Stalk 1985 p 177) Thus Japanese firms, by emphasizing market share over profitability create a competitive discontinuity Moreover the Japanese are aggressive price cutters willing to sacrifice short term profits for gains in market share (Abegglen & Stalk 1985 p 42)

For instance in late 1981 Yamaha had 37% of the Japanese motorcycle market very close to the leader Honda s 38% share Yamaha announced plans to build a new factory which would have given Yamaha a capacity advantage Honda retaliated immediately and by the summer of 1982 one could purchase a small motorcycle for less than the cost of a ten speed bicycle in Japan (Abegglen & Stalk 1985 p 49) This example illustrates the willingness of Japanese firms to sacrifice short term profitability to maintain market share a practice which violates the American rules

(2) Japanese competitors do not have a limiting strategic concept The Japanese on a national level enter emerging global industries which promise production growth and a high relative productivity of labor (Horvath & McMillan 1980) This minimizes costs which

[illegible] pursuing long-term profit [illegible] strategy is inherently nonlimiting Japanese companies do not limit themselves to unattractive segments of industry, since this does not facilitate growth and market share

Honda entered the American motorcycle market in 1959 in the small bike segment By 1965 they were offering fourteen different motorcycles between the sizes of 50 cc and 450 cc The assumption was that the Japanese would not continue to expand into large bikes Yet the Japanese corporations steadily climbed the product ladder and successfully mounted a challenge in the big bike sector Harley Davidson s share of big bike U S sales went from 99 6% in 1972 to 44 4% in 1975 In 1984 Honda introduced two scooters designed for the growing women s market The Japanese commitment to the development of products that appeal to the widest possible range of consumers (Keegan 1984 p 319) is not an inherently limiting strategy

(3) The goals of Japanese firms are irreconcilable with the goals of American firms The primary goals of a Japanese firm are market share and long-term growth The primary goal of American companies is short-term profit This is partly because of their share holders In Japan major shareholders are principally associated companies (banks and insurance companies) who are not primarily interested in short term profits or dividends Shareholders in American firms are principally interested in the firm as a financial investment (Clark 1979 p 221) Several other factors support the primary goal of growth In a growth economy a firm generally needs to grow at least

at the same time as the [illegible] to protect its market position Since there is a separation of ownership and management top management is not as concerned with earnings per share [illegible] sales growth Growth also expands the number of jobs and positions for promotion Since employees have a high sense of identification with the organization and will work for a lifetime for the same firm, short term profit is not as important as long term profit (Kono, 1984, p 55) The strategies that serve the Japanese goals of growth and market share directly undercut the American goal of short term profit Strategies that maximize market share such as price-cutting hindet the attainment of an American firm s goals

For instance In the early 1960s American firms dominated the American television market These firms concentrated on large high value high priced products with quite high profit margins Japanese entered the market with small black and white sets developing high volume through aggressive low prices The Japanese then proceeded to extend their product line (Fahey & Radnor 1980 p 338) The Japanese achieved their growth and market share goals but in doing so undermined the profit goals of the American companies eventually leading to the demise of all but one American firm

(4) Japanese firms generally have high strategic stakes in an industry For a Japanese firm's strategy to succeed it must dominate the market through unusually high growth The primary goal for Japanese firms is market share showing that the Japanese attach great strategic importance to relative industry position The fact that Honda was willing to engage in drastic warfare to maintain its

one p[illegible] edge over [illegible] this point.

(5) Japanese and American firms do not have comparable return on investment goals. Hast (1989), in a recent survey of American, Japanese, and European firms concluded Japanese firms achieved significantly lower annual profitability than comparably sized American firms. For American firms, short run return on investment tends to be a common objective. Although the Japanese also desire high return on investments it tends not to be their primary goal (Abegglen & Stalk, 1985, p. 177). In a study of 518 American and Japanese companies, Kagono, Nonaka, Okumura, Sakakibara, Komatsu and Sakashita (1984) concluded that American companies see stockholder gains and profitability as their primary objectives. Japanese companies have multiple objectives with emphasis on growth. Return on investment may be thought of as an ultimate consequence of other Japanese objectives. In Japan, high return on investment comes from superior competitive position which is measured by market share (Abegglen & Stalk, 1985).

(6) The Japanese do not accept current profitability. Rather they are willing to accept low short term profits, reinvest in improved production methods, and by doing so, expect to accrue long term profits.

The Mitsui Engineering and Shipbuilding Firm of Japan is a good example of this. Mitsui has invested in computerized production planning, module construction systems, self propelling transportation systems and computer controlled gas cutting machines

(Kono 1984 p 186) The result [illegible] 12 000 employees more than what it takes 43 000 [illegible] to manufacture, resulting in lower prices and substantially higher profitability

(7) Japanese firms do not consider cash generation to be a primary goal In Japan, suppliers firms and customers are often linked through ownership patterns (Ouchi, Berney & Ulrich 1982) These stockholders do not expect dividends the way American investors do Since growth is preferred to short term profits dividends are not a high priority for Japanese firms Kagono et al (1984) found that stockholder gain was the second highest ranked objective for American firms but only the ninth highest ranked objective for Japanese companies Because dividends are not nearly as important to Japanese firms cash generation has a relatively low priority

An examination of comparable firms will depict the sizable differences in dividends between American and Japanese companies From 1980 to 1985 Toyota s average dividend was 1 3% of the average share price For the same period General Motor s average dividend was 7 1% Hitachi s dividend was 1 7% compared to 4 7% for General Electric The average dividend rate for NEC was 1 1% or less than one fourth that of Texas Instruments dividends of 4 6% Total dividends paid out by all major Japanese companies averaged only 1 8% (Abegglen & Stalk 1985 p 168)

(8) Japanese firms have extremely long time horizons Japanese believe that short time horizons will lead to immediate profits but eventually profits and sales will decline (Kono 1984 p 59)

investing a large amount in [illegible] development or plant upgrades will lead to immedi[illegible] products will become obsolete and equipment will [illegible] profits and sales to decline. Research by MITI indicates [illegible] 80% of large Japanese companies have long range planning systems and that long range planners had better performance than nonplanners (Kono 1984, p. 59). Japanese have been aggressive in capital investments sacrificing short term profit. MITI surveys of large manufacturing corporations show that the fixed assets to labor ratio tripled from 1973-1983 for Japan but only increased slightly for American corporations due to improvements in labor productivity (Kono 1984, p. 60). Japanese banks also tend to take a long term view. The banks want to see long and continuous growth for companies because this results in an increased demand for loans. Also since there is very little risk of being acquired by other companies in Japan, management is not worried about temporary declines in stock prices (Kono 1984, p. 61). Japanese firms may also invest more in research and development than their American counterparts because of differences in the American and Japanese tax incentives (Johnson 1982). All of these reasons result in a Japan that does not have a short time horizon.

For instance, Hitachi in 1970 had to decide whether to continue development of the computer or discontinue it like General Electric (in 1969) and RCA (in 1970). Hitachi decided to compete with the giant IBM because of their belief that the computer business was growing and that it had great synergy with their other products Hitachi poured the large profit from their home appliance division into computer development Hitachi did this fully expecting to incur losses for at least four to five years This was viewed as a long term strategy decision Currently Hitachi holds that number two share in computer sales in Japan and has world wide competitive power in computers (Kono 1984 p 60)

(9) Japanese companies are generally not risk averse One way of measuring risk is by measuring debt-to equity ratio Risk taking firms are more likely to take on great amounts of long term debt American firms are primarily financed by equity Japanese firms are primarily financed by debt (Clark 1979 p 221) Because of their interest in growth and their holdings in firms Japanese banks allow Japanese companies to assume more long term debt The average debt-to-equity ratio for an American firm is 0 6 1 and for Japanese companies is 1 6 1 (Abegglen & Stalk 1985) These financial policies reflect the growth bias of Japanese strategy Aggressive use of debt can enable a firm to grow faster

In 1955 Tohatsu had a 22% share of the Japanese motorcycle market followed by Honda with a 20% share Honda having a debt to equity ratio of 6 1 continued to strive for high growth Within five years Honda's market share had risen to 44% Tohatsu by initially refusing to take on debt couldn t compete in a growing market and saw their share slip to four percent In 1964 Tohatsu filed for bankruptcy (Abegglen & Stalk 1985 p 44)

Commonality One thing that production and market economies have in common is that they are essentially capital driven By that I mean that [illegible] inual improvements in capital intensity [illegible] d economies in Japan capital is used to [illegible] while in America it is used to increase productivity [illegible] the twin goals of profit maximization and competitive [illegible] However the American costs of capital as well as the need to maintain [illegible] profitability result in American firms being "under" capitalized relative to the Japanese As shall be shown the Europeans are less profit [illegible] than the Americans which allows them to be more capital intensive [illegible] Americans but less so than the Japanese Conversely the low [illegible] capital and the lack of pressure to produce profits in Japan lead [illegible] "overborrowing" and subsequent high levels of capitalization Thus [illegible] following propositions can be generated

P1a Production based economies firms will exhibit the highest levels of capital intensity in any given industry

P1b Market economy based firms will exhibit the lowest levels of capital intensity regardless of manufacturing industry

P2a Market economy firms will exhibit the highest levels of profitability in any given manufacturing industry

P2b Production economy firms will exhibit the lowest levels of profitability regardless of industry

Industrial Democracies

Production based economies differ from market economies in that the capital markets are heavily regulated industrial democracies differ from market economies in that while the capital markets operate fairly unimpeded by government interference (Zysman 1983) the labor markets do not industrial democracies are characterized by (1) heavy taxation of industry to help support extensive social welfare programs such as national health care and pensions and (2) extensive government legislation protecting "workers' [illegible] in the workplace [illegible] from country to country ranging from legislatively mandated p[illegible] management in Germany (Albers 1990) to the [illegible] to engage [illegible] shop" collective bargaining in Great Britain (Lane 1989) Poole [illegible] suggests that it is useful to understand that industrial demo[illegible] evolved in two distinctly different manners (i) by the local init[illegible] of workers and trade unionists as in the case of Great Britain or [illegible] the development of supportive public policy and legal enactments as in the case of Germany the Netherlands and France

Particularly in the latter case such legislative entitlements severely restrict the ability of managers to react to short term fluctuations in the market place Here it is suggested that this lack of short term flexibility necessarily shifts the focus of the European manager to the long term This coupled with the higher costs associated with paying for the extensive social welfare system makes it difficult for European firms to compete on either price or on short term fluctuations in tastes or demand Thus it is not surprising to learn that European firms have not traditionally emphasized price competition as part of their marketing strategy (Samlee 1987)

Lastly industrial democracies have a strong tendency to emphasize full employment policies Part of that strategy is the development of state owned enterprises who compete with private firms but are sponsored by the government Each of these influences are briefly discussed below

Costs The costs associated with doing business in the industrial democracies of Western Europe are the highest of any in the industrial world (Lane 1989) Although the 1992 Common Market will do much to lower [illegible] ing n [illegible] and transportation costs which are likely to be [illegible] 1990). Thus European firms will continue to suffer from a labor cost differential. This means that competing on price will remain a problem for Common Market firms. In the absence of tariff barriers European firms will face foreign firms which operate at a cost advantage. Historically American firms have not exploited this cost differential preferring higher profits instead (Douglas & Rhee 1989). Unfortunately the Japanese use their cost advantages to compete on price. Thus European firms in industries which allow Japanese competitors to achieve cost advantages are likely to face stiff competition in the following decade on their home turf.

Worker's rights. Although the process and structure by which worker's rights are secured varies among the nations of the European Community (EC), it is generally acknowledged that the concept of industrial democracy is the most fully developed in Germany (Poole 1986). For this reason, but particularly because Germany has been suggested as a possible model for the entire European Economic Community (EEC) (Lane 1989), the German system is described in some detail below. The main point of the discussion is to demonstrate how industrial democracy inhibits managerial flexibility.[2]

The term Mitbestimmung embodies how industrial democracy is viewed in Germany (Streek 1984). Mitbestimmung means codetermination or codecision by workers on issues which concern their vital interests. This is achieved by labor operating at two levels in a firm: (1) at the level of the workplace through committees of participation (worker's councils) which must approve changes in employment [illegible] compen[illegible] (Straek 1984) and (2) at the corpor[illegible] through repres[illegible] the management and supervisory (board of directors) boards (Streck 1984) Examples of worker power include the chairman of the board cannot be elected without union approval major changes such as expansion cutbacks relocation of production facilities hiring or firing of major executives cannot be done without labor's approval (Lane 1989 p 226) it is easy to see how such power inhibits managerial flexibility and forces the firm into taking a long term perspective change in such an environment is bound to be slow piecemeal and incremental

State owned enterprises (SOEs) One of the key differences between the industrial democracies of the EC and the Japanese and American governments are the existence of state owned enterprises Spurred on by the full employment policies of the emerging democratic labor parties in the past war period (Aharoni 1988) the number of European SOEs grew rapidly as the newly formed governments used them as public policy instruments and to maintain political power SOEs generally have the dual goals of generating profit and maximizing employment (Hafsi 1988) goals which frequently conflict The conflict in the basic goals of the SOE leads them to be less efficient than their privately held competitors (Aharoni 1988) Boardman (1989) finds that not only are SOEs less efficient as Aharoni suggests but mixed enterprises (partially privatized firms) perform no better than SOEs on sales/assets Additionally SOEs rarely engage in joint ventures because foreign investors are unlikely to consider joint ventures and/or direct foreign investments in countries which subsidize their competitors (Aharoni 1988)

For these and other reasons SOEs are on the decl[illegible] ([illegible] 1989) However they still play an important role in [illegible] Economic Community (EEC) economy about 10% of EC GDP can be [illegible] SOEs (Rugman 1983) It is the existence of these SOEs in [illegible] economy which contributes to EC firms in general being less pr[illegible] than American firms Rugman found the following results

> The relatively poor performance of European MNEs is due mainly to the presence of state-owned enterprises in the sample [the SOEs] earn very few profits that is are inefficient in economic terms It is also not correct to remove the SOEs from the sample since they are an integral part of the 50 largest European MNEs and their adverse impact on the mean profit rate is an indication of wider problems for the performance of the European economy (Rugman 1983 p 13)

Haar s (1989) findings are similar Large European SOEs such as Volkswagenwerk reduce the mean economic performance of European MNEs with profitability one-sixth of that of comparable size firms such as Chrysler (Haar 1989 p 9)

Thus it seems that SOEs while facilitating the goals of the industrial democracies by increasing employment and paying good wages do so at the expense of profitability This coupled with our previous discussion of worker's rights and costs leads to the following propositions

P3 Industrial democracy based firms will exhibit the highest labor intensity regardless of industry structure

P4a SOEs in industrial democracies will exhibit greater profitability than production based firms but less profitability than market economy firms

P4b SOEs in industrial democracies will exhibit less profitability than non SOEs

P5 Market based firms will exhibit less labor intensity than industrial democracy firms but more than production based firms regardless of industry

P8 In industries where [illegible] commercial [illegible] firms will [illegible] the profitability of [illegible]

Command Economies

Command economies regulate both capital [illegible] and labor markets. However, they do much more than that. The also regulate prices [illegible] specifying the actual amount and type of output a firm produces (Holzman 1983). Production quotas are set in terms of one year, three year, or five year plans, without respect to quality of the goods produced. In such systems, short term political objectives dominate, and the agency problems which exist in American firms are magnified a thousand fold. Stories of one thousand pounds of nails quotas being met by making one one-thousand pound nail (which is useless) are legion. In such economies managers get ahead much in the same way that they do in America's version of the command economy, government bureaucracy. Promotions and raises are achieved by meeting the political objectives rather than the economic ones (Wildavsky, 1964), and/or by increasing the number of subordinates, which require an upgrade of the executives position (Wildavsky, 1964).

Thus, it is not surprising to find that in command economies, the SOEs predominate with predictable results. The plight of these firms is summed up nicely by Fuhrman who offers the following comment about a typical Eastern Bloc SOE, whose primary goals are not profit maximization but rather employment maximization and to earn foreign exchange (Fuhrman 1987): " ... it would be cheaper for the government to send the workers on a year long, all expenses paid vacation, than it would be to keep the foundry going for another year" (Fuhrman 1987, p. 65). For these reasons firms from command economies are unlikely to be viable global competitors.

[illegible] suggest [illegible] too unlikely that [illegible] is [illegible] In this [illegible] explicit propositions are made concerning command economies [illegible] which will (hopefully) cease to exist in the near future.

Multiple Objectives?

Why do firms have to have only one global strategic objective? Why can not their objectives vary from country to country? In one sense this question could be answered by saying that managers are merely responding to the capital and labor market imperatives set by their home governments. Therefore, regardless of where business activity takes place, its performance must be configured in such a way to facilitate the home country objective(s). To do otherwise would lessen the firm's chances for survival in its home country because the firm would be less successful as a consequence of "going global." This would obviate the reasons for expanding internationally.

However, this does not mean that specific strategic objectives must be the same on a country by country basis. Vertically integrated firms could have extraction, production, assembly, and sales all taking place in different countries. But at each stage of the process the objective, though different, must facilitate the basic goal orientation of the firm.

With respect to marketing objectives (profits versus growth), it is possible that a firm could vary its goals from country to country providing that this variation enhanced the opportunities of achieving the basic home country goal orientation. For instance, although American firms' objective of short run profit maximization does not allow established foreign subsidiaries to deviate from seeking short run pr[illegible] (because it [illegible] detract from overall profitability) European firms [illegible] European subsidiaries could pursue profit maximization strategies [illegible] government policies permitting which would enhance their home country attractiveness Thus it would not be surprising to find European firms which achieve higher profitability in America than they do in Europe [3] This might also tend to lead to a more decentralized multidomestic marketing management structure for European firms as opposed to American firms This proposition has been supported by a few empirical studies (Doyle Saunders & Wong 1986 Semlee, 1987)

Similarly, Japanese firms are also likely to have highly centralized objectives like American firms but for slightly different reasons In the case of the Japanese long term market share dominance objectives are assumed to be achieved by the relentless pursuit of short run growth objectives (Keegan 1984) Thus although the Japanese do have a long run perspective with respect to market share and an even longer term perspective with respect to profits their devotion to short run growth goals effectively constrains their international strategic objectives

This discussion leads to the following propositions

P7 Successful international industrial democracy firms are much more likely to achieve higher profitability overseas than at home

P8 Industrial democracy firms are much more likely to have multidomestic management structures than their foreign based competitors

Goal Orientation, Industry Structure, and Generic Strategy

The central proposition which differentiates this study from previous efforts is that a country s public policies particularly with respect to its capital and labor markets de facto create a generic goal orientation for home country firms These goal orientations hold without respect to the industry a firm is in Thus Japanese global firms are expected to uniformly pursue long term growth (market share) American global corporations are expected to all be short term profit maximizers etc Moreover specific generic strategies have been found to facilitate the achievement of each of the three goal orientations (short term profits long term profitability long term market growth (share)) Differentiation strategies have been associated with short run profit maximizers (Morrison 1989) Cost leadership has been seen as a method of achieving long term market growth while focus strategies have been paired with long term profitability (Doyle Saunders & Wong, 1986)

Similarly industry structure has also been linked with the formation of strategic groups or generic strategies (Porter 1980 1985 1986) Cost leadership strategies for example are heavily dependent upon leverage Indeed Porter (1986) has suggested that understanding industry structure is the key to understanding the nature of international competition

Here a slightly different position is taken While acknowledging that industry structure is important goal orientation is seen as being primary Within this context industry structure is seen as coaligning with goal orientation to produce superior performance in the international marketplace Coalignment also called consistency or "strategic fit"

(Venkatraman & Camillus 1984) [illegible] the field of strategic management e g Miles & Snow [illegible] 1987) Put simply it is alleged that the "fit" between a strategy and its context which includes external environment (Anderson and Zeithaml 1984 Hambrick 1983 Hirt Ireland & Stadter 1982 Bourgeois 1980 Prescott 1986 Jauch Osborn & Glueck 1980) results in significantly better performance for a business than a firm which does not coalign its environments and strategies (Venkatraman and Prescott 1990) The implication of this notion of coalignment is that certain industries will perform better if based in certain countries More specifically superior industry performance will tend to result when goal strategy fits and industry structure strategy fits coalign

The relationship between goal orientation ideal industry structure and generic strategy is summarized in Table 3 2 As was previously mentioned the primary discriminators of industry structure are leverage and first mover advantages Price sensitivity plays a secondary but important role as well

Marketing differentiation attempts through advertising psychological pricing product positioning and market segmentation to create a unique image for a product Design superiority does not necessarily or automatically accomplish that The marketing concept requires managers to have a good understanding of competing products and consumer preferences Differentiation seeks to induce buyer loyalty and reduce price sensitivity (Davies and Lyons 1982) As Miller (1986) suggests differentiation strategies based on the marketing concept [illegible] may be especially economical and useful at least in the short run [illegible] where it can be used to avoid potentially more [illegible] competition like price cutting or innovation [illegible]

Cost leadership strategies are geared [illegible] price advantages (Porter 1980) which allow firms to offer superior [illegible] to the consumer. Successful cost strategies are highly dependent [illegible] (1) price sensitive consumer segments existing who care more about [illegible] than image or novelty and (2) an industry structure which allows cost leadership to be achieved. High leverage industries are ideal examples

Table 3.2
Strategies Best Suited for Goal Orientations

Goal	Strategy	Ideal Industry Structure
Short Term Profit	Differentiation (marketing concept	1) High rate of innovation 2) Lack of price sensitivity 3) Low scale economies 4) Entry barriers created by resource superiority and/or economies of scope 5) First mover advantages
Long Term Profit	Brand Equity (reliability, quality prestige)	1) Low price sensitivity 2) Scale diseconomies (discourages new entrants from other goal orientations) 3) First mover advantages 4) Low levels of innovations 5) High levels of product adaption
Long Term Growth	Cost Leadership (value orientation)	1) High price sensitivity 2) High scale economies 3) High learning curves 4) High economies of scope 5) Entry barriers created by experience curve effects creating relative price advantage
Short Term Growth of Existence	Self perpetuation	1) Competition is regulated out 2) Performance is guaranteed/ subsidized by government

Japanese firms [illegible] [illegible] theory, gain cost advantages [illegible] but only in the segments which [illegible] Japanese capital has historically been [illegible] supply, higher leverage industries have received top priority through "window guidance." Now that Japanese capital is abundent (Beilanger 1987), it is possible that the Japanese will begin to identify and move into these price sensitive segments in the lower leverage industries.

Long term profitability can also be achieved through differentiation strategies. Here, the emphasis is on constructing long term sustainable competitive advantages through superior product reputation. Such strategies can be based on superior quality, reliability, convenience, or prestige (Scherer 1980). In these instances, when a brand or firm becomes associated (over time) with this perceived superiority, the firm can charge a premium for its product, known as brand equity (Leuthesser 1988). This equity can, in the case of European firms, help offset the firm's higher cost structure, resulting in high profitability.

Generally, but not always, relatively inelastic demand niches are the best place to pursue such equity strategies (Kotler 1984). Thus, successful European firms are likely to be found disproportionately in luxury product markets because the goal orientation and firm industrial (niche) position coalign strategically. The following propositions relate to country industry structure strategic fits.

P9. Japanese firms will show superior growth in industries which foster cost leadership strategies (high leverage industries).

The logic underlying the proposition is as follows. Japanese firms have a growth orientation which is facilitated in high leverage industries through the pursuit of [illegible] strategies [illegible] American and European firms [illegible] American [illegible] their short term profit maximization goal will tend [illegible] to increase profitability rather than reinvesting [illegible] the experience learning curve Thus

P9B American firms in high leverage industries will [illegible] average significantly higher profitability than [illegible] European or Japanese firms and significantly lower growth rates than Japanese firms

European firms in high leverage industries will operate at distinct [illegible] cost disadvantages due to higher social welfare fixed costs Thus [illegible] time

P9C European firms in high leverage industries will tend to [illegible] SOEs

P9D Non-SOE European firms in high leverage industries will tend to pursue niche strategies which minimize price sensitivity

P10 American and European firms will show superior growth and profitability in industries which foster differentiation strategies and restrict cost leadership strategies (low leverage industries with first mover advantages)

As was pointed out by Robinson (1988) low leverage industries tend to be heavily dominated by "market pioneers" In these industries the lack of cost leadership strategies preclude most Japanese competitors who cannot use their domestic public policies to accrue a basis of sustainable competitive advantage Thus largely by default competition is confined to American and European firms

P11 European firms will show superior growth in industries where profitability and cost leadership opportunities are severely limited

Global industries where cost strategies are precluded and profitability is limited will tend to be dominated by European firms by default. American global firms will [illegible] supra-normal profitability cannot be achieved. [illegible] be reluctant to enter industries where cost advantages arise [illegible]. European firms, being satisfied with lower rates of return, are likely to be the major global competitors in such industries.

Industry Positions and Generic Strategies

Thus far, the theory and propositions have focused on country (government) influences and goal orientation-industry structure strategic "fits." This is, in fact, the new theory of international competitive strategy presented here. However, one of the key assumptions of this study was that international competition takes place at the firm level, not at the industry or national level. Thus, models of intra-industry competition should be integrated into an overall propositional framework. However, such linkages to the firm level are at this point highly speculative and exploratory. Strategic fit is merely one of a myriad of factors operating at the firm level which explain success.

Table 3.3 shows a possible linkage between a firm's industry position and its generic strategy. Kotler (1984), relying heavily on Porter's (1980) classifications, identifies four types of firms: leaders, challengers, followers, and nichers. Both Kotler (1984) and Porter (1980) base their normative models on the assumption that "marketing strategy is dependent on each firm's size and position in its industry" (Kotler, 1984, p. 383). Market leader strategies include innovation of products, maintaining superior quality, multiple brands, brand extensions, heavy advertising, reluctance to compete on price and superior service (Kotler, 1984, p 398) What these strategies all have in common is that they [illegible] on the principle of differentiation

Challengers "attack the leader and other competitors [illegible] aggressive bid for further market share" (Kotler 1984 p [illegible]) [illegible] attack is generally based on attaining resource superiority in one or more of the major product markets The generic strategy challengers use to

Table 3 3
Intra industry Competition Framework

Industry Position	Basis of Sustainable Competitive Advantage	Segmentation Strategy
Leader	Differentiation	1) Dominate the largest (most profitable) segments 2) Resist challengers 3) Usurp followers
Challenger	Concentrate resources leverage	1) Create resource superiority in the key product market 2) Attack leader s strength
Follower	First mover flexibility	1) Re segment market 2) Concentrate resources in new segments) 3) Avoid competing with leaders
Niche	Focus on brand equity (quality reliability prestige)	1) Niche 2) Concentrate resources in niche 3) Move into segments leader and follower/challenger don t want

gain superiority is to promote superior value The preferred method of achieving superior value is cost leadership For example Hall (1980) shows how Ford produced trucks of only average performance but by becoming low cost leader, Ford was able to offer superior value and challenge the industry leaders In some industries cost leadership is more difficult to achieve (due in large measure to low leverage) In such indus [illegible] goods product improvements and superior [illegible]

Followers can be similar in relative [illegible] challengers [illegible] to Kotler they are found in industries such [illegible] and [illegible] where both differentiation and cost leadership strategies are [illegible] to achieve (1984 p 409) in such industries, price sensitivity is high and the opportunities to attack the leader without incurring major losses are quite rare In such industries followers avoid direct attacks on the leader preferring to rely on innovation to generate growth opportunities

Niche strategies involve finding markets that the larger firms overlook or ignore Niches can be based on end-use customer size geography product product line product feature prestige and/or superior quality (Kotler 1984 p 411) Niche strategies are essentially narrowly defined differentiation strategies which commonly rely on building brand equity

These four strategy types can really be thought of as being three types Challengers and Followers are not so much differentiated from each other on the basis of their relative size as the industries in which they are located Therefore for the remainder of this paper the terms Challenger/Follower are used interchangeably

Buzzell et al (1975) suggested that this leader follower niche pattern of intra-industry competition is quite common across a variety of industries The Boston Consulting Group (1976) stated that a stable industry structure will contain on average three significant competitors with relative market shares of 4 2 1 Porter (1985) suggests that BCG is a special case of Buzzell (1984) and most likely will not hold in all

Industries has might be [illegible] specifics domestic industries appear to confirm the leader [illegible] niche pattern

But do the emerging global industries exhibit these same patterns And do global leaders pursue differentiation strategies global challengers cost-leadership and global nichers brand equity strategies Although no empirical work to date has been done on these questions the logic of the intra-industry position model would suggest that similar patterns might emerge in global industry competition as well

This leads to the following exploratory propositions

P12 Global industry leaders are more likely to pursue differentiation strategies than nonleaders

P13 Global industry challengers are more likely to pursue leverage/value strategies based on cost leadership than nonchallengers

P14 Global nichers will pursue specialized differentiation strategies narrowly focusing on offering superior products in a product market that leaders and challengers cannot or will not contest as opposed to pursuing broad-based differentiation

In a somewhat tangential issue it is possible that adopting one of these three approaches will facilitate "thinking globally" and will result in earlier international expansion and/or higher levels of international sales Specifically it is hypothesized that follower firms are the more likely to go global earlier and more heavily than domestic leaders

P15 Challenger firms will enter foreign markets earlier than will domestic leaders

P16 Challengers will have a higher proportion of their total sales due to international sales than domestic leaders

The logic underlying these two propositions is that domestic leaders already employing differentiation strategies are likely to look "for new [illegible] usage of the [illegible]

Although these strategies could include [illegible] it is generally a more efficient use of a leader's resources [illegible] of their familiarity with domestic product markets Thus [illegible] historically tended to view international expansion as a [illegible] strategy (Wilkens, 1974) while challengers/followers saw internation[illegible] as an opportunity to generate growth without having to confront the leader directly (Chandler, 1962) Additionally challengers (1) tend to be in fewer product markets than leaders and (2) pursue cost leadership strategies Geographic expansion allows followers to achieve sales growth and maintain their product-market cost leadership strategies Firms following niche strategies are also inclined toward international activity but limited resources often restrict their access to foreign markets However there are many notable exceptions such as Roll Royce and Mercedes Benz

Goal Orientation, Industry Structure, and Industry Position

Do industry position strategies (leader follower niche) coalign with goal orientation and industry structure to produce superior performance? If the notion of environment strategic fit holds then industry position coalignment with industry structure and goal orientation should enhance firm performance Thus the best performing firms in the world should be those whose goal orientation industry structure and industry position provide a "perfect" strategic fit This suggests the following propositions

P17 American and European global leaders in low leverage industries Japanese followers in high leverage industries and European leaders in high risk industries will have above average growth rates for their respective industries

This is because Japanese [illegible] leverage [illegible] constitute a perfect strategic fit ([illegible]). American global leaders in low leverage industries constitute a perfect fit (differentiation) because in low leverage industries growth and profitability are directly related (Suzuki, 1987). European global leaders in the low leverage and high risk industries represent a "near" perfect fit. These global leaders pursue a specialized differentiation strategy largely based on first mover advantages and sustained by the strategies to close the gap. Thus, the European superior growth performers use their first mover advantages to build a long term brand image based on superior reliability, quality, and/or performance. The image allows these firms to compete on factors other than price where European firms usually operate at a disadvantage.

P18 Superior profitability is achieved by European and American global leaders in low leverage industries.

This is because the American firms represent a "perfect" strategic fit. European firms constitute a "near" perfect fit once again for similar reasons to those given above.

Although these firms provide the best environment strategy linkages there are other firms which also will do well in international competition.

P19 European and American niche firms in high leverage industries will achieve superior profitability.

This is because the niche (differentiation) strategy creates a defense against the value/cost based strategies which generally dominate these industries providing the niche is in a relatively price inelastic market segment.

Globalization versus Diversification

The proposed theoretical framework not only [illegible] basis for achieving international sustainable competitive advantage it has implications for the globalization (Levitt 1983) diversification (Robinson 1987) debate as well Two major streams of research have historically existed One suggests that products be standardized but markets diversified (Rugman 1979 Wolf 1975 Leftwich 1974 Severn and Laurence 1974) The other school emphasizes product diversification (Palepu 1985 Christiansen and Montgomery 1981 Rumelt 1982) Keegan (1969) and Levitt (1983) reject the premise of both schools suggesting that global firms must necessarily choose both products and markets Levitt (1983) offers one extreme view suggesting that both products and markets be standardized On the other extreme are those who think it is simply impossible to standardize global markets or products given the heterogeneity of world markets and tastes (Neil 1990)

More recent scholarship has recognized that a contingency view of diversification may yield more fruitful insights (Jain 1990 Kim Hwang & Burgers 1989) than previous approaches Jain (1990) for instance suggests standardizing when international products/markets are similar if cost savings can be achieved McDougall and Round (1984) found that international product and market diversifiers enjoyed greater profit stability than nondiversifiers much in the same way that varied stock portfolios reduce volatility

Lastly several studies have supported the notion that related diversification is more profitable than unrelated diversification (Palepu

1985 Suzuki 1980) Related [illegible] same industry structure

Viewing these findings through the [illegible] international competitive strategy four [illegible]

F20 American firms which stay within a low leverage industry structure will be more profitable than those which do not

F20E Firms which stay within their nation's ideal industry structure will perform better (by their nation's goal) than those which do not

F21 Greater market diversity will produce greater profit and growth stability regardless of industry structure position or country of origin

F22 Greater related product diversity will not necessarily produce more stability in performance (Indeed it might introduce too much complexity for the firm to handle)

Porter versus GIFS Framework

In Porter's framework the intensity of domestic industry competition was in many respects the most important attribute He found that a nation's most successful global industries were the ones in which there was the most competition domestically This Porter suggested was because intense domestic competition results in firms innovating faster and expanding more quickly and intensely overseas

Porter also found that firms have general tendencies with frequent specific exceptions to see goals choose strategies and organize in distinctly nationally recognizable patterns According to Porter successful Italian firms tended to be small to medium sized privately owned and operated like extended families while in Germany successful firms tended to be strictly hierarchical in organization and management practices and top managers usually have technical backgrounds Italian companies tend to be global leaders in [illegible] packaging machines with corporate [illegible] products niche marketing and flexibility German management [illegible] perform best in technical or engineering oriented industries optics chemicals complicated machinery complex products require precision manufacturing, development and after sale service all of which benefit from a rigorous management structure (Porter 1990b p 81)

Similarly, Porter suggests that corporate " goals reflect the characteristics of national capital markets and the compensation practices for managers" (Porter 1990b p 81) In countries such as Germany and Switzerland banks hold substantial percentages of corporate stock for long term appreciation "Companies do well in mature industries where ongoing investment in R & D and new facilities is essential but returns may only be moderate" (1990a p 81) Conversely the U S A with its large pool of risk capital wide spread trading of stock quarterly and annual dividends and annual management bonuses will do well in relatively new industries like software and biotech but will face strong pressure to underinvest in mature industries, where rates of return are likely to be lower

Thus Porter suggests that the goals of publicly held firms reflect the characteristics of national capital markets and that the confluence of goals and capital markets lead to three general influences on a firm s success in global markets First a fit between the goals of the capital market and the industry is needed to facilitate global success Second different national capital markets set different goals for different types of industries Third the influence of capital markets is directly related [illegible] [illegible] the capital market sets counter [illegible] [illegible] suggested that individual goals and attitudes such as compens[illegible] tudes toward risk and professional pride also exert and i[illegible] company performance independent of financial markets

Government   Porter thought that the role government [illegible] creating advantage was at best secondary   Government polic[illegible] only be helpful in those industries where the determinant of advantage already existed   Government can raise or lower the odds of success but lacks the power to create advantage in the absence of other favorable factors   Foreign exchange controls limiting foreign direct investment limitations on licensing technology import restrictions export expansion policies restraints on the movement of domestic or foreign managerial personnel and controls on international information flows are all examples Porter cites   Thus Porter sees government as introducing distortions into international rivalry rather than being the creator of the domestic marketplace

Because Porter's (1990a) book is bound to be compared to this proposed framework it might be prudent to offer a couple of tests of the relative merits of the two perspectives   One major difference between the two competing frameworks is that Porter (1990a) suggests that the firms with the most intense domestic competition will be the most successful global competitors (1990 p 663)   Conversely I argue that the number of domestic competitors is irrelevant   This difference stems from Porter s view of markets as essentially being national in nature   Global marketing to him is dealing with home and host markets cultures economies and government In contrast [illegible] either local or global Thus the success of a [illegible] mance vis-a-vis all its competitors not merely the domestic [illegible]

P23 The number of domestic competitors will not be directly related to global success

A second difference between the two frameworks is that Porter argues that cultural and economic characteristics of a nation dominate a nation's basis for comparative advantage Government policies play a secondary role Thus national "phenotypes" drive a firm's success rather than government policy This paper argues the opposite suggesting that firms respond to government's structuring of the economy in creating their objectives and these objectives are more likely to be achieved in industries whose successful strategies are consistent with the firm's objective function strategies, regardless of national phenotypes For instance if the Japanese government creates incentives for growth oriented firms in high leverage industries then Japanese firms should succeed in such industries regardless of whether they involve conserving resources or miniaturizing The framework predicts Japanese success in shipbuilding steel and rubber while a strictly "phenotypic" approach would not Thus examining such industries would represent a partial strong inference test of the two competing theories

P24 Japanese firm's performance in rubber steel and shipbuilding should emulate their performance in electronics and automobiles

Because the GIFS framework is bound to be compared to Porter's (1990b) "diamond of advantage " some test comparing the relative merits of the two competing frameworks would appear to be in order Unfortunately a direct comparison of the two perspectives is a more difficult undertaking than one [illegible] [illegible] [illegible] [illegible] [illegible] is in large measure derived from the earlier writings of Porter (1980 1985) What GIFS was intended to do was to internationalize Porter's earlier works on industry structure and generic strategies The irony is that Porter largely ignored his earlier work in building his diamond of advantage in doing so he presents a paradox His early work describes the ideal industry structure as being one in which competition is constrained The "good competitor" in Porter (1980 1985) does not truly increase the intensity of domestic competition whereas Porter (1990a 1990b) suggests that the more intense the domestic rivalry the more competitive internationally the firm will be Clearly firms can be complementary and mildly competitive or maintain intense rivalries They cannot do both Thus the GIFS framework and the diamond of advantage to some extent represent Porter's two divergent perspectives on global competitiveness Second the two frameworks do have much in common (1) Both see competition as being global in nature (2) Both view bases of competitive advantage as being national in origin Porter (1990b) views these advantages as being based on culture resources and historical accident while the GIFS framework views the advantages as being an unintended consequence of domestic public policies concerning capital and labor markets Porter also sees firm goals as reflecting characteristics of national capital markets but does not view government as the creator of capital markets rather history and culture are the drivers Indeed it may be that these cultural resource and historical factors lead to the public policy configurations used in the GIFS framework However such speculation is beyond the scope of this investigation Third both frameworks focus primarily on the triad nations. It may be that the critical test of these two competing perspectives is how well they do at predicting patterns of global competitiveness in nontriad nations. What meager evidence exists suggests that in a nontriad setting, GIFS may outperform the "diamond of advantage." Katz and Strouthers (1991) show that the GIFS model did as good a job of predicting patterns of competition in international banking among nontriad nations as within the triad. Conversely, Rugman (1991) and Cartwright (1991) in studies of Canada and New Zealand respectively showed that the "diamond of advantage" did not predict which domestic industries would emerge as world class competitors. These initial findings cast doubt on the generalizability of the "diamond of advantage" as well as provide *prima facie* support for the generalizability of the GIFS framework. However, these results are far from conclusive.

Perhaps the biggest difference between the two frameworks is how they view the role of industry structure in directing patterns of global competition. Although viewing national cultural and locational phenotypes as being important, Porter (1986, 1990a) views industry structure as being the key in understanding global oligopolistic competition. This is where the two perspectives differ the most. The GIFS framework suggests that generic economy type differences are what primarily drive the patterns of firm performance. With respect to capital/labor intensity and profitability, public policy configurations do a better job of predicting patterns of cross-national cross-industry performance than does industry structure. With respect to sales growth, generic economy type interacts with industry structure to produce superior performance. Additionally, because production-based economies tend to be growth oriented, there will te[illegible] of growth [illegible] effect Industry structure although [illegible] role relative to the main effect of generic economy type [illegible] economy [illegible] by industry structure interaction In contrast Porter would suggest that industry structure would be the chief determinant of patterns of international competitiveness Additionally given the country by country variability found in Europe by Porter it would seem extremely unlikely that the "diamond of advantage" would predict a uniform pattern of relative capital/labor intensity and profitability across the unique cultural resource and historical configurations found by Porter

Thus Porter would suggest that the best systematic predictor of firm performance would be industry structure Porter is vague in both his 1986 and 1990a books as to what constitutes industry structure Therefore, for the purpose of this discussion industries will be classified as being high leverage low leverage or high risk The GIPS framework's perspective of the relative merits of the interaction of industry structure with generic economy type are pitted against Porter's perspective which asserts that industry structure is the primary determinant of interfirm performance in the following proposition

P25 The interaction of industry structure and generic economy type does a better job of predicting cross national patterns of firm performance than does industry structure

Conclusion

This paper began by suggesting that the field of international marketing strategy is in disarray Traditional theories used to explain and predict the pattern of international business competition such as the theory of comparative advantage or the international trade (product) [illegible] they are [illegible] to explain

Here an attempt is made toward developing a new theory of competitive strategy one which predicts the current pattern of global competition by describing how international bases of sustainable competitive advantage can be achieved

The theoretical framework presented here differs from previous attempts in two general ways First previous attempts have focused on patterns of trade between nations Even Porter s more recent attempts to disaggregate (1986 1990a 1990b) have focused on the national and industry level In contrast the framework presented here focuses on the firm assuming trade generally takes place between firms and other firms and/or markets Second previous theories focus on factor endowments to explain patterns of trade Here sustainable competitive advantage is seen as consequence of the decisions a firm makes rather than the resources a home country offers Firms which coalign their strategies with their home government policies/industry structure/industry position become the most successful global competitors Thus this framework is not only descriptive it is also normative

The theoretical framework presented here suggests that the international pattern of business competition will reveal that "successful" firms will differ from country to country i e certain industries would be more likely to produce global "successes" in certain countries If this is true then by examining the world s most successful firms specific patterns should emerge which show higher growth/profitability for firms located in specific industries and countries The country by industry pattern of "success" will vary by country [illegible] industry as the twenty-five propositions suggest.

Specifically, three government types (market, production, industrial democracy) were examined. By adding the assumption of treating the world as a single unit (and thus making this a "pure" theory of trade), it should be possible to empirically test many of the propositions presented here. Thus, the next step in the development of this framework is to test the propositions presented here.

Notes

1 Given the great increase in international financial transactions in recent years (Keegan, 1989), one might wonder if the assumption of national capital markets is a reasonable one. It is. "Despite all the talk of globalization, as measured by the willingness of savers to invest in overseas assets, the world financial markets are not as closely linked now as they were a century ago. Capital flowed more freely between nations from 1880 to 1913 during the heyday of the gold standard . . . [than] the 1965-1986 period" (Frenkel, 1990, p. 126). Frenkel (1990) suggests that gyrating exchange rates tend to keep capital within national boundaries.

2 According to Roberts (1990), the European Parliament of the EEC is now emphasizing "social harmonization as a necessary step to equalize competitive conditions among the Common Market countries" (26). The device being espoused by the democratic socialists is known as "the Social Charter," which seeks to mandate "labor participation in management decisions, paid holidays for educational purposes, and other social policies that raise the costs of labor" (26). Member countries with lower labor costs, such as Portugal, Spain, and Greece, which refuse to adopt policies designed to equalize labor costs would be accused of "social dumping" and hence their products would be subject to economic sanctions. Although Britain currently leads in implementing the economic directives which are required to create a free internal product market, the United Kingdom is being accused of being "anti-European" because it is resisting the socialists' attempts at political integration of social welfare policies, fearing that it will gradually lead to the erosion of national sovereignty and the rise of centralized political power under the control of the European Parliament. This debate reminds one of the debate a generation earlier between the advocates of the "Atlantic idea" and the "European idea." As in the previous debate, I suspect that the socialists will prevail.

Grant (1987) found that profitability for 304 large Brit manufacturing firms was directly related to the degree to which production and sales were located overseas. This allowed the firms to achieve higher profitability by competing in less price sensitive markets (Europe) and by building newer (and hence more productive plants in North America which gave the firms a cost advantage. Profitability was found to decline in North America as the plants aged. I suspect that the results would have been even more dramatic if the data could have been confined to less price sensitive markets.

CHAPTER
METHODS

This chapter describes the hypotheses which were tested the methodologies employed and the measures which were used The hypotheses were derived from the propositions presented in Chapter 3 In the first section of the chapter the data collection procedure is described including a discussion of variable choices and categories In the second section of the chapter the hypotheses to be tested in Chapter 5 were presented and methodologies to be employed discussed In the third section the rationale underlying the research design is discussed

Data

Data was collected on 167 European American and Japanese firms for the years 1978-1990 for a total of 13 years Nineteen seventy eight was picked somewhat arbitrarily as a starting date as it was around the time in which the notion of a global corporation began to replace the preexisting concept of multinational or multidomestic corporation (Porter 1986) If the decade of the eighties was the decade of the emerging global economy and the global corporation then 1978 serves as an initial anchor point Nineteen ninety was chosen as the final year as it was the most recent year for which all relevant data was available

Data was selected in a two step procedure First industries were selected Second firms within the selected industries were chosen

Industry selection Industries we[illegible] stage process The necessary condition for i[illegible]lusion was the industry [illegible] to clearly fit into one of the three ideal i[illegible]dustry structures describ[illegible] in Table 3 1 This "fit" was accomplished in two unrelated ways Firs[illegible] industries were selected based on their leverage (experience curves[illegible] Yelle (1979) provided a very nice summary of a variety of studies in whic[illegible] such data could be obtained For instance the beer industry was determined to have low leverage doubling of output led to only a 10% reduction in costs In contrast some electronics components can achieve as much as a 30% reduction in costs by doubling output Based on their leverage industries were initially classified as being high leverage low leverage or high risk (uncertain experience effects)

The industries were then assigned to student groups in Spring 1990 and 1991 who were asked to do research on a given industry and classify it as being high leverage low leverage or high risk according to the criteria described in Table 3 1 Only those industries which were consistently identified as belonging to one of the three industry structures were retained in the study This resulted in fourteen of the eighteen two digit industrial SIC code classifications being used in the analysis

1 High leverage industries (computers automobiles steel rubber textiles consumer electronics)

2 Low leverage industries (soaps and cosmetics beverages food tobacco products)

3 High risk industries (chemicals oil refining mining pharmaceuticals)

Thus most of the world's manufactu[illegible] study (airplanes and shipbuilding are two notabl[illegible] though not exhaustive the industries sampled do represen[illegible] manufacturing activities Moreover the use of two unr[illegible]fication schemes (the experience curve literature and student assessments of industry fits with ideal industry structures) should enhance the validity of the industry's placement in a given industry structure

Firm Selection

Criteria for the firm s selection were as follows First firm data had to be listed in the Fortune listings for the entire thirteen year period This eliminated the majority of firms The Fortune listings were chosen as they are the same data source used in the vast majority of previous studies By using comparable data the validity of the findings should be enhanced Second sources such as Wards Business Directory and the Japan Economic Almanac (Economic Journal) were consulted to ascertain whether a firm did at least 70% of its business within a given industry structure if it did it was included if not it was considered a conglomerate and was eliminated Thus RJR Nabisco which does business in tobacco food and beer is included in the study because all three are low leverage industries It was therefore included in the data base USX on the other hand operates both in steel (high leverage) and oil refining (high risk) it crosses industry structure lines and was therefore not included in the sample

The sample contains 167 manufacturing firms which are among the world's most successful corporations It does not include service industries such as banking real estate or insurance Nor does the sample include conglomerates which cross industry boundaries Thus the sample is limited to manufacturing firms which are "related diversifiers" or single industry players Generalization to overall patterns of global competition will therefore necessarily be limited

The data also meets the notion of an _ideal_ sample of firms as defined by Lee and Blevins (1990) The firms chosen were (1) comparable size firms in each country (2) manufacturing firms and (3) unrelated firms (firms not closely held with other firms and hence with the same management (Lee and Blevins 1990 p 99)) By meeting these criteria it was felt that the firms in the sample were comparable

Variables

The following variables were used in the study country of origin industry industry structure relative size assets net income sales employees return on assets (ROA) sales growth labor intensity capital intensity Each is briefly defined below

Country of origin Each firm's nationality is determined by in which country the firm was founded the presumption being that this nationality will tend to be reflected in both its board of directors and majority stockholders both of whom will tend to be responsive to national capital markets

Industry Industry is defined through use of SIC (Standard Industrial Classification) codes

Industry structure Industries are classified as being either high leverage low leverage or high risk Thus there are three basic industry structures The definitions of each are found in Table 3 1

Relative size. Companies are classified as being global leaders, challengers or niche firms. Data from 1978 was used to classify the firms. The leader was the firm with the highest level of sales. Challenger firms ranged down to about 50% of the leader's sales. Niche firms had 25% or less of the leader's sales.

Profits. Profits are defined as return on assets (ROA). ROA is defined as net income divided by assets for a given year. Thus, it is a percentage.

Sales growth. Sales growth or growth (used interchangeably) is defined as (current year sales minus previous year's sales termed) change in sales divided by previous year's sales. Thus, it is also a percentage.

Labor intensity. Labor intensity (which more properly might be termed labor productivity) is defined as sales divided by the number of employees. The lower the number the more labor intensive (or the less labor productive) the firm is. Labor intensity is defined this way because the resulting numbers are easier to read than their inverses (which would be the more traditional measure).

Capital intensity. Capital intensity (actually capital productivity) is defined as sales divided by assets. The lower the number, the more capital intensive (less capital productive). Once again, intensity is defined this way for ease of reading.

Other variables. The remaining variables came directly from the Fortune 500 listings and are considered self explanatory: sales, assets, net income, and number of employees.

Hypotheses

The hypotheses presented here are derived from the propositions presented in the third chapter. Not all the propositions have associated hypotheses. Two factors determined which hypotheses were selected. First, only those hypotheses which represented a test of the central propositions of the GIFS framework as well as those which represented competing perspectives were tested. Second, only hypotheses which could be tested with the assembled data set were examined. The unexamined propositions will provide the basis for future empirical research.

Perhaps the best way to think about this research design and the resulting hypotheses is in ANOVA terms. The overall design is a three (general economy type/government type/country — Japan, USA, Europe) by three (industry structure — high leverage, low leverage, high risk) by three (firm strategy/firm relative resource/intra-industry position — leader, challenger, niche) design. At the industry level, the GIFS framework makes a number of predictions concerning cross national differences in capital/labor intensity[1], profitability and growth. These take the form of planned contrasts. At the industry structure by generic economy type level a significant two way interaction is predicted as well as two significant main effects and three planned contrasts for simple main effects. And last but not least, significant three way interactions are predicted. In this instance regression is used rather than ANOVA because predictions are made concerning magnitude and direction as well as the significance of the three way interaction effects. Each of the hypotheses is discussed below in greater detail as well as the method employed to test each hypothesis [illegible] (country effects) which manifest at the industry level

Country effects Hypotheses one through five [illegible] contrasts where the direction of the difference as well as its significance is postulated Thus one tailed t tests are used in evaluating each of the contrasts (because there are not predictions concerning every planned contrast it was felt that t tests were more appropriate than Scheffe) Each of the hypotheses is briefly discussed below These industry level cross national effects were considered to be very robust One of the best ways to demonstrate this robustness is to show the effect using a small sample size Thus hypotheses one through five were each examined with thirteen observations per generic economy type (country) They are as follows

H1 For a given industry the Japanese will on average be the most labor productive the Europeans the most labor intensive

H2 For a given industry the Japanese will on average be the most capital intensive the Americans the most capital productive

The rationalization is as follows The CIFS framework predicts that intensity will be greatest in the factor (labor/capital) which is being controlled (regulated) Thus the Japanese will have the highest capital intensity while the Europeans will have the highest labor intensity The Americans will be the most capital productive because a market economy dictates maximal return for capital outlay The Japanese will be most labor productive because they will substitute subsidized capital for labor whatever possible in a production based economy labor rather than capital is treated as the scarce commodity

H3 Japanese firms will always have the lowest average ROA in a given industry

H4 [illegible] industry

These two hypotheses are derived from the [illegible] market economies In production economies (Japan) [illegible]ting [illegible] ROA is not emphasized rather market share is the [illegible] in market economies (USA) short run maximal return is emphasized Thus high ROA for American firms and low ROA for Japanese firms is the result

H5 Japanese firms will average the highest growth rates for a given industry

This hypothesis is part of the 'common wisdom' (Lee & Blevins 1990) concerning Japanese firms It however is not part of the GIFS framework's predictions and therefore not expected to be supported by the data

Country by industry structure Hypothesis 6 deals with the predictions the GIFS framework makes at the country by industry structure level

H6 Japanese firms will average the highest growth rates for high leverage industries European firms for high risk industries and American firms for low leverage industries

The basic proposition being tested here is that country industry structure strategic fits" or coalignments provide a basis for sustainable competitive advantage *vis a vis* foreign competitors in the emerging global marketplace More specifically it is being proposed here that by taking advantage of certain home government public policies concerning capital and labor markets firms can create long term strategic advantages not easily replicated by foreign firms Home country national public policies toward capital and labor markets influence firm goal orientations and labor/capital intensities These interact with industry structure Where strategic fits occur superior global performance is achieved

The Japanese by taking advantage of their [illegible] structure can generate superior global performance by substituting subsidized capital for labor Since there is little external pressure to generate short-run profits, Japanese firms can use lower pr[illegible] other firms Thus, Japanese firms will be able to best exploit their home country advantages in industries where price competition is important and where the substitution of capital for labor leads to more efficient production i e , lower costs

European firms can similarly use home country public policies to build a basis for sustainable competitive advantage European "Industrial Democracies" are characterized by (1) their restrictive and costly labor policies and (2) by their desire for a "fair" rate of return (long run profitability) on investment over the long run rather than a maximal short run return This is because most stocks in Europe are owned by the banks which tend to have a long term time horizon (Semlee 1987) Thus European firms will fare best in international competition by competing in product markets where large amounts of skilled labor (highly paid) are required and/or lower than market short run rates of return occur Industries which are highly R&D intensive but have low manufacturing costs such as pharmaceuticals and/or industries that are highly commodity based like oil or chemicals are likely possibilities In such industries cost advantages are not easily achieved neutralizing the Japanese advantage Moreover, the inability to consistently generate short run supra normal profits make these industries less attractive to American competitors These industries are labeled as being "high risk" because their experience curves are highly uncertain

American firms operate in a "free market" economy. This free market creates pressure on American publicly held firms to produce superior profitability in the short run in order to attract and maintain capital and skilled labor. The key advantage such an economy conveys is managerial flexibility. This flexibility allows American firms to, in theory, react more quickly to market changes than their European and/or Japanese competitors. Thus, markets where market demand changes rapidly or where the industry is highly segmented making it difficult to achieve steep experience curves and hence making price competition more difficult, are ideal industries for American based firms. Low leverage product markets where price sensitivity is not great and where stable supplies of skilled labor are not essential should be the areas in which American firms should prove to be exceptionally strong, such as in the low leverage consumer products area (beer, soft drinks, packaged food, toiletries, detergents, etc.)

Bennet-Franklin Algorithm (Two-Way Interaction)

Industry structure and country are both fixed effects[2] while subjects (in this case average firm performance for a given cell in a given year called Firm Year) are random. So the model has firm years (Y in the figure below) nested in country and industry structure. Thus, the Bennet-Franklin Algorithm takes the form

Table 4.1
Bennet-Franklin Algorithm

	C	I	Y/CI	F/CIY	E(M)
C	0	i	y	f	$ify\theta_c^2 + \sigma_f^2 + f\sigma_y^2 + E$
I	c	0	y	f	$cfy\theta_I^2 + \sigma_f^2 + f\sigma_y^2 + E$
Y/CI	1	1	1	f	$\sigma_f^2 + f\sigma_y^2 + E$
F/CIY	1	1	1	1	$\sigma_f^2 + E$
CXI	0	0	y	f	$fy\theta_{cxi}^2 + \sigma_f^2 + f\sigma_y^2 + E$
E	1	1	1	1	E

Country, Industry, Country by industry and Years nested in country and industry can all be examined for significance as the following source table indicates.

Table 4.2
Source Table

Source	df	F
Country	(C 1)	$MS_C/MS_{Y/CI}$
Industry	(I 1)	$MS_I/MSY/CI$
Country X Industry	(C 1) (I 1)	$MS_{CXI}/MS_{Y/CI}$
Firm Years/Country industry	CI (Y 1)	

Country and industry structure main effects. In addition to the above interaction effect, two other hypotheses are going to be examined within the context of the repeated measures design: both main effects. The first concerns country differences and suggests that there will be significant differences in growth rates across nations. This is a common perspective, particularly the notion that Japanese growth will be (Hypothesis 5) significantly higher than other nations' growth rates. However Lee and Blevins (1990) found that this was not the case. If there is some country effect, I predict it will be dwarfed by the interaction effect.

Porter v GIFS. The next test is derived from the work of Porter (1980, 1985, 1986, 1990a) who suggests that industry structure is the key to understanding patterns of global competition. This is where the GIFS model perhaps differs the most from Porter's "diamond of advantage" (1990a). The GIFS framework suggests that industry structure, although important, will play a secondary role relative to the interaction of generic economy type and industry structure. In contrast, Porter would suggest that industry [illegible] is the primary dr[illegible] and whil[illegible] country and economic effects Porter's "thick" description of th[illegible] by country variability found in Europe by Porter [illegible] would render it extremely unlikely that a "diamond of advantage" [illegible] would lump all EC countries into a single common category [illegible] structure is measured here by categorization based on leverage [illegible] definition may quite likely not entirely fulfill Porter's view of indus[illegible] structure Thus to some extent this is not a completely fair test of th[illegible] difference between the two perspectives However given the [illegible] limitations it was the best that could be done Moreover it [illegible] important to note that as was previously stated the two views have much in common Where they differ is in the perspective of the relative importance of government and industry structure with Porter viewing industry structure as the primary driver and government as a secondary force acting primarily as a constraint while the GIFS framework offers a differing perspective The GIFS framework predicts that the interaction is the key driver dwarfing any main effects while Porter doesn't even mention the possibility of an interaction

Firm level synergies As it was pointed out in Chapter 3 it is possible to extend the logic of the GIFS framework's notion of coalignment down to the relative industry position of the firm From this perspective it is possible to add a third layer of strategic synergy that of the firm's relative position in the industry Firms are seen as being leaders challengers or niche players By extending the logic of strategic synergies American low leverage leaders Japanese high leverage challengers and European high risk niche firms should be the best performing firms in [illegible] opportunities for growth [illegible] industry [illegible] and therefore these new predictions [illegible] relative The results if they occur will be most [illegible] themselves in data that are normed by industry

In addition to these "perfect" strategic fits [illegible] which represent "near perfect" fits These include American [illegible] in low leverage industries European leaders in high risk industries [illegible] Japanese niche firms in high leverage industries In each of [illegible] cases the country/industry structure coalignment is "perfect" [illegible] relative industry position coalignment is compatible

There are two hypotheses to be derived from the above discussion

H7 American low leverage leaders Japanese high leverage challengers and European high risk niche players will have the highest (relative) rates of growth in the world

H8 American low leverage niche firms Japanese high leverage niche firms and European high risk leaders will also have above average (relative) growth rates

In addition to the above hypotheses because in low leverage industries profit and growth are linked it is also hypothesized that

H9 American low leverage industry leaders will exhibit the greatest (relative) ROA

Method Due to unequal cell sizes and because predictions are being made concerning direction (positive) and magnitude (greater than one) as well as significance dummy variable regression using pooled cross sectional time series analysis is the preferred method (Hibbs 1974 Keppel 1982) Because this type of analysis is relatively uncommon a brief explanation is offered below

Pooled Cross Sectional Time Series Analysis One type of analysis used in this study is a pool of cross section and time series data on selected firm performance over a longer time period The variance of residuals in such an analysis is likely to be different from either a cross sectional analysis (several firms for a given year) or a time series analysis (one firm for the time period in question) Cross sectional analyses often have problems with heteroskedasticity Because the data will be expressed as normed percentage increases rather than as raw dollar figures there will be no problem with heteroskedasticity Time series analyses often have problems with autocorrelation Thus it is very likely that combining time series with cross sectional analysis will result in models which are time wise autoregressive To solve for this potential problem it is necessary to develop a pooled cross sectional time series model which can correct for autocorrelation This has been done in the following manner

The data, performance measures for nine industry structural government type groupings for a twelve year time period are represented by observations on N cross sections over T periods of time (T=12) Thus there are altogether n (108) = N x T (9 x 12) observations Each of these n observations is treated as a single case in a cross sectional analysis and OLS is run for the n observations

Nine residuals (one for each cell's time series) are saved and examined for evidence of autocorrelation The pooled autocorrelation is the average of the 108 individual autocorrelations The reason for pooling is rather obvious The individual autocorrelations vary quite dramatically The small number of time points (T=12) in each of the individual time series contributes to the variation in the individual patterns of autocorrelation Time series models rely on large number of time points o estimate the autocorrelation parameter [illegible] assumption of time series modeling and hence proce[illegible] the autocorrelation parameter By pooling the [illegible] more stable series and consequentially a more [illegible] true autocorrelation

Having obtained an estimate of the autocorre[illegible] we [illegible] to correct for it Our n observations are treated as if they ar[illegible] tinuous time series The pooled estimate of autocorrelation serve[illegible] true autocorrelation Thus the pooled series is now treated as if [illegible] were a single GLS equation with the pooled estimate of autocorrelatio[illegible] serving as the true autocorrelative parameter These "pooled" results give us an idea of the aggregate trend in this particular case the data was stationary (there was no autocorrelation)

Statistical Power

To the extent to which it is possible it is beneficial to calculate the statistical power for each of the hypotheses given the effect sizes found in past research For the industry level predictions concerning labor intensity capital intensity and ROA we are expecting "large" effect sizes (Cohen 1977 p 12) Past research has not dealt with capital or labor intensity it has focused exclusively on ROA and/or growth (Haar 1989 Rugman 1983 Kumar 1984) Using the most recent study (Haar 1989) the effect size for ROA was $r = 736$ This more than fits Cohen s (1977 p 83) correction for large (large $r = 5$ medium $r = 3$ small $r = 1$) effect size The statistical power for $n = 13$ and $\alpha = 05$ is about 92 This is very high power Although previous research has not examined capital/labor intensit [illegible] effects [illegible] equal to that of ROA Thus both should have similar [illegible]

Similarly I postulate a large effect size for [illegible] country/industry structure on sales growth although [illegible] labor/capital intensity of ROA Thus r = 5 is chosen [illegible] Because this is a new theory α = 01 is chosen and n = [illegible] is well in excess of 99 Thus if this interaction effect [illegible] statistical power gives an excellent chance of detecting [illegible]

For the three-way interactions the effect size is [illegible] being small After all strategic synergy may quite likely [illegible] only a small part of a firm's overall performance Thus by con [illegible] r= 1 is chosen Because of "noise" in the data the exploratory nature of the analysis and because the effect is postulated as being small α= 05 is chosen and n=204 Power is in excess of 89 giving an excellent chance of detecting the interaction effect if it exists

The Design

Assumptions The research design is based on three assumptions First the world is treated as one global market rather than as a collection of national markets This is done for five reasons First it is a simplifying assumption which allows the GIFS framework to be tested using Fortune 500 data which will allow this study to be compared to previous efforts at predicting patterns of competition which also relied on Fortune data Second it eliminates the need to compare firms on a country by country basis something which due to factors such as firm confidentiality and/or transfer payments would make gauging national firm performance relatively impossible [illegible] niche firms to be selected in accordance with the [illegible] Buzzell et al (1975) and Porter (1980 1985) Fourth it is consistent with the notion being advanced here that in the manufacturing sector at least, competition is being increasingly global in nature Finally given the amount of noise created in the data by this assumption if the GIFS framework's predictions are upheld it will tend to support the robustness of the framework

The second assumption is that managers of successful firms generally knew what they are doing They may not always be able to articulate exactly why they make the choices that they do but the choices that are made are generally sound ones This assumption allows the firms to have some degree of control over its environment and suggests that firm performance is at least to some degree due to willful design rather than due solely to luck

The third simplifying assumption is that Fortune 500 firms represent the most successful firms in the world in terms of (size) sales with the exception of a few privately held firms this is true by definition It may be less true when it comes to profitability and/or sales growth However, when it comes to global competitors as opposed to smaller niche players confined to a country or two the Fortune listings probably do a fairly good job of capturing a good number of the current and emerging players

Therefore if the GIFS framework is correct Fortune 500 firms should replicate the patterns of competition predicted by the framework e g the previously described hypotheses Additionally the GIFS frame

[illegible]

structure level and least well [illegible] is disaggregated factors (individual [illegible] performance [illegible] other than 'strategic fit' play an increasingly important role [illegible] mining a firm's performance

Contributions

There have been several previous attempts at anal[illegible] comparative performance of U S European and Japanese multinationals (Haar 1989 Kumar 1984 Rugman 1983 Buckley et al 19 8 Jacquemin and Lichtbuer 1973 Whittington 1971) These studies differ from this paper in three major aspects First all of the previous studies have been cross sectional in nature By using a repeated measures design in this study a dynamic perspective will be added Second previous studies tend to focus on main effects primarily and tend not to examine interactions In contrast this study will focus primarily on interactions Third and most important previous work tends to be notoriously atheoretical Cross sectional regressions were run and results reported without any theory to guide the analysis Here apriori predictions will be made based on a new theory of competitive strategy (the CIFS framework) The predictions will be tested by collecting and analyzing Fortune 500 data for the years 1978 1990

Rationale for the Predictions

Because this study only looks at Fortune 500 companies it can be argued that only the world's most successful firms are being examined This new theory of competitive strategy is a normative model suggesting that firms which adopt strategies [illegible] mix will be the world's most successful firms. Thus, if it is assumed the theory was true, successful firms should emulate the pattern predicted by the theory. Thus, Fortune 500 firms, being among the most successful firms in the world, should reflect the predictions made by the theory.

In general, the predictions are that American firms tend to be short-term profit maximizers, European firms long term profit oriented, and Japanese firms long term growth oriented. Short term profitability is dependent in part upon being able to achieve and maintain first mover advantages. This is only possible in industries where it is quite difficult for firms to play catch up. In low leverage industries it is difficult for new entrants to gain cost advantages. Thus, American or European firms are likely to dominate such industries depending on which firms had first mover advantages. Japanese firms, being growth oriented, are most likely to dominate industries in which high leverage can be achieved. This leverage allows the Japanese to continually lower their costs. Because the Japanese economy is not profit driven, the reduced costs allow the Japanese to compete on price, under-cutting their competition. Thus, over time, the Japanese are likely to dominate such industries.

European firms operate in a highly regulated economic environment. The socialist labor policies of the Common Market make it quite impossible for firms to make rapid alterations in employment practices (e.g. Germany's labor "committees of participation" must okay any changes in compensation or hiring levels). Thus, European firms tend to focus on long-run strategies rather than short-run profit maximization. Because of the lack of flexibility in European economic environments European can neither compete on price (which requires an environment takeovers are difficult and financing can be obtained on antici longterm growth neither condition exists in Europe) nor on rapid shifts in consumer preferences Thus the Europeans are stuck in the middle" to use Porter's (1980) phrase being able to compete neither on costs or on short term differentiation The markets in which European firms can best dominate are areas where sustainable competitive advantage can be based on long term differentiation Thus European firms will tend to dominate in product markets where long term reputations dominate price Thus European firms will do well in some niche markets (those emphasizing prestige) but will do particularly well in "high risk" industries such as chemicals and oil refining where short run growth and profitability are highly uncertain

Based on their government's laws regulations and policies European, Japanese, and American firms can derive a basis for sustainable competitive advantage vis-a-vis competing foreign firms by entering industries or product markets which allow the firm to exploit the "advantages" provided by their governments Even the overregulated underprotected European firms have a sustainable competitive advantage vis-a-vis their foreign rivals Because European firms are neither expected to achieve long term rapid growth or short term profit maximization they are free to enter industries and markets in which firms with such goals are precluded

Notes

1. [illegible] to sales ([illegible] employees [illegible] [illegible]

2. The reason country (actually generic economy type) and industry structure are fixed is because they represent the whole population (three types of generic economies which produce global competitors three types of leverage high low and uncertain) Firm years is random because it would be desirable to generalize the results to other firms and/or other time periods

CHAPTER 5
RESULTS

This chapter is divided into three sections each roughly corresponding to the organization of the hypotheses presented in the previous chapter In the first section descriptive statistics are offered In the second section descriptive statistics provide prima facie support for many of the core hypotheses and inferential statistics are used to describe country level differences for capital/labor intensity ROA and growth Main effects (of generic economy type and industry structure) and interaction (generic economy type by industry structure) effects are described and the GIPS framework is pitted against aspects of Porter's (1990a) framework These results are based on a repeated measures ANOVA In the third section the firm level hypotheses are tested using dummy variable pooled cross sectional time series analysis

Descriptive Analysis

Tables 5 1 through 5 4 contain a summary of the descriptive statistics In many respects the descriptive analysis is perhaps more important than the inferential statistics which follow The data used in analysis is not randomly generated Rather the collected data represents a total amount of available data Firms were selected by strict criteria described in Chapter 4 All firms which met the criteria were included in the analysis Moreover generalization to other nations' firms is not being attempted here Lastly, the CIFS framework is not being used here to predict for additional industries or beyond the time period of data collection For these reasons it could be argued that the data represent a population rather than a sample Thus, a close examination of the descriptive data is merited

Table 5 1 displays the distribution of firms by industry and by country of origin The distribution includes 167 firms 62 American, 45 Japanese and 60 European Thus American firms comprise about 37% of the

Table 5 1
Distribution of Firms by Industry and Country of Origin

	USA	Japan	Europe	Total
Mining	3	1	3	7
Pharmaceuticals	10	1	5	16
Oil	7	1	5	13
Chemicals	4	6	7	17
High Risk Totals	24	9	20	53
Steel	5	5	4	14
Rubber	1	2	3	6
Textiles	5	4	2	11
Consumer Electronics	3	7	6	16
Auto	3	7	8	18
Computer	4	3	1	8
High Leverage Totals	21	28	24	73
Beverage	5	1	5	11
Food	5	5	5	15
Tobacco	3	0	3	6
Soaps and Cosmetics	4	2	3	9
Low Leverage Totals	17	8	16	41
Grand Totals	62	45	60	167

total Japanese firms about [illegible] and European firms about [illegible]% There are 53 (about 32%) "high risk" firms 73 (about 44%) "high leverage" firms and 41 (about 25%) "low leverage" firms Thus the "high leverage" firms are somewhat over represented while the low leverage firms are somewhat under represented in the population Moreover the Japanese are disproportionately high leverage firms over 62% as opposed to overall average of 44% [1] Thus the population is not evenly distributed with respect to industry structure or country of origin However the number of observations per firm (12 or 13) results in large numbers of observations per cell particularly at the higher levels of aggregation in the forthcoming analysis

Table 5 2 shows the distribution of firms by country of origin industry structure and initial (1978) relative industry position Note

Table 5 2
Distribution of Firms by Country of Origin Industry Structure and Relative Industry Position

		Japan	USA	Europe	Total
Leader	High Leverage	0	4	1	5*
	Low Leverage	0	4	2	6**
	High Risk	0	3	5	8**
Challenger	High Leverage	8	6	7	21
	Low Leverage	1	3	3	7
	High Risk	0	12	7	9
Niche	High Leverage	20	11	16	47
	Low Leverage	7	10	11	28
	High Risk	9	9	8	26
Number of Firms	High Leverage	28	21	24	
	Low Leverage	8	17	16	
	High risk	9	24	20	

*U S Steel is the industry leader for steel in 1978 but it was not included in the analysis as it became USX a conglomerate

**There can be more than one leader per industry that there are a number of empty cells. Note also that the nonempty cell sizes range from a low of one to a high of twenty four. It was this pattern of empty cells coupled with great variance in the size of the nonempty cells which led to the choice of regression based analysis as opposed to ANOVA in the multivariate analyses as it is the preferred method under such conditions (Keppel 1982). The primary three-way hypotheses concern American low leverage leaders, Japanese high leverage challengers and European niche firms in "high risk" industries. There are ample numbers in each cell, 4, 8, and 20 respectively.[3] Secondary three way hypotheses focus on European low leverage and American low leverage firms (16 and 10 firms respectively) as well as Japanese high leverage niche firms (20 firms). Thus, the hypothesized 3 way interaction concern 78 of the 167 firms or about 47% of the population.

Inferential Findings

In order to be able to generalize the findings suggested by the descriptive analysis to other firms, time periods, countries or industries, it is desirable to examine the data with inferential statistics. The hypotheses will be examined using descriptive and inferential statistics. First, the country (main) effects at the industry level will be examined for labor/capital intensity, growth and ROA. Second, the predictions concerning growth will be examined using repeated measures ANOVA at the government type and industry structure level. GIFS model predictions will be contrasted with Porter's (1980, 1985, 1990a) predictions. Finally, predictions involving the strategic fit between country, industry structure and relative firm resources will be examined using pooled cross sectional time series analysis The hypotheses and the results are as follows

Table 5 3 displays the average capital and labor intensities[2] for the above population for the years 1978 1990 The general hypotheses concerning capital and labor intensities are as follows

H1 For a given industry the Japanese should always be the most labor productive, the Europeans the most labor intensive

H2 For a given industry the Japanese should always be the most capital intensive the Americans the most capital productive

Table 5 3
Average Capital and Labor Intensity for Selected Firms
in Specific Industries 1978 1990

	Japan		America		Europe		Average	
	CI	LI	CI	LI	CI	LI	CI	LI
Chemicals	87	302	1 12	167	1 18	121 00	1 02	197
Mining	1 29	820	81	360	81	210 00	88	360
Oil	1 20	1396	1 50	439	1 09	382 00	1 32	491
Pharmaceuticals	.82	204	1.07	103	.86	83.00	.59	103
							1 05	287
Beverage	85	253	1 10	157	95	59 80	1 01	122
Tobacco			1 12	137	1 93	101 00	1 42	183
Soaps & Cosmetics	1 15	205	1 48	152	1 23	92 00	1 28	150
Food	1.86	374	1.90	192	1.70	91.00	1.70	219
							1 35	169
Electronics	94	152	1 34	84	1 05	63 00	1 06	106
Autos	1 47	325	1 47	148	1 36	105 00	1 42	188
Computers	98	111	1 08	101	1 06	83 00	1 04	94
Steel	74	200	1 22	172	1 08	97 00	1 01	156
Textiles	96	214	1 46	63	1 37	44 00	1 26	114
Rubber	1.07	116	1.46	71	1.12	56.00	1.18	79
							1 15	133
Average	1.14	369	1.33	175	1.25	121.00		

Labor intensity. With respect to Hypothesis 1 the Japanese are the most labor productive thirteen out of thirteen cases. The Europeans are the most labor intensive fourteen of fourteen cases. Thus the GIFS framework does a perfect job of predicting the pattern of labor intensity across the triad.

With respect to Hypothesis 1 (Table 5.3) there does appear to be a significant difference between Japanese and European labor intensity across the 13 industries (tobacco excluded) ($F = 5.64$, $df = 1, 13$, $p = .026$, $\omega^2 = .119$).

Capital Intensity. Hypothesis 2 predicts that the Japanese will be the most capital intensive while the Americans will always be the most capital productive. The Japanese are the most capital intensive in nine of the thirteen industries (tobacco excluded).[4] In the cases of mining and oil, where the prediction does not hold, it may be that the firms are involved less in the extractive activities than their foreign rivals and thus do not have as great a need for capital investment. More surprising are the results for the automotive industry. Here the Japanese are tied for greatest capital productivity (with the USA). It appears that whatever advantage the Japanese have in the automotive industry, it is not based on high levels of investment. (It may be based on newer and hence more productive capital investment. This data set uses total assets, but that conjecture is beyond the data's ability to investigate.)

The Americans are the most capital productive in ten of thirteen cases (tobacco is excluded). Interestingly enough, the U.S. is the most capital productive in all six of the high leverage industries. Given the visibility and prestige associated with these global industries, it is not surprising that the U S A should be "under leveraged" in its corporations The empirical evidence appears to support such an observation

The GIFS framework predicts correctly for twenty seven out of twenty seven cases with respect to labor intensity The framework also correctly predicts the pattern for capital intensity in 19 of 26 cases (73%) Thus the GIFS framework has an overall accuracy of 46 out of 53 or 86 8% for capital/labor intensity This is an extremely accurate predictive framework, particularly given the quality of the data But will the GIFS framework do as well at predicting cross national patterns of industry growth and profitability?

With respect to Hypothesis 2 there is a significant difference in capital intensity between Japan and the U S A at the industry level The one tailed t test is 1 74 significant at the 05 level (df = 1, 13) Thus there appear significant differences between the nations with respect to capital and labor intensity at the industry level The ω^2 = 112

ROA The industry level hypotheses with respect to ROA follow

H3 Japanese firms will average the lowest ROA in a given industry

H4 American firms will maintain the highest average ROA in a given industry

Table 5 4 displays the average ROA by industry for the 167 firms The two hypotheses concerning ROA are that American firms will consistently produce superior profitability while the Japanese will be consistently least profitable The Americans have the highest ROA in eleven of

Table 5.4

Average ROA, ROS and Growth for Selected Firms in Specific Industries, 1978-1990

	Japan			America			Europe			Average		
	ROA	ROS	Growth	ROA	ROS	Growth	ROA	ROS	GROWTH	ROA	ROS	Growth
Chemicals	1.22	1.39	10.57	5.81	5.72	7.28	3.34	2.87	9.74	3.45	3.33	9.20
Mining	.02	.16	5.40	6.70	6.50	6.50	.19	.67	7.30	2.60	2.40	6.80
Oil	.50	.50	3.46	5.24	3.59	2.97	3.98	3.70	7.13	4.33	3.40	4.61
Pharmaceuticals	4.10	5.10	13.40	13.60	13.20	10.60	6.80	8.20	11.70	10.90	11.10	11.10
Average	1.45	1.71	8.20	7.80	7.20	6.80	3.40	4.40	8.95	5.30	5.10	7.30
Beverage	3.83	4.58	10.40	7.71	8.12	10.90	5.71	6.76	13.70	6.45	7.18	12.74
Tobacco				7.47	6.50	17.51	7.67	4.80	9.10	5.78	4.97	10.40
Soaps & Cosmetics	3.26	2.86	13.19	8.33	5.37	8.40	6.01	4.88	13.22	5.86	4.57	11.60
Food	2.60	1.40	9.00	7.80	4.40	8.10	7.20	5.10	8.20	5.90	3.70	8.90
Average	2.98	3.10	10.25	7.80	6.20	11.30	6.70	5.40	9.77	6.00	5.10	10.80
Electronics	2.80	2.80	17.10	7.50	5.70	11.30	2.20	2.00	11.70	3.40	3.10	14.10
Autos	2.90	1.97	15.30	3.20	2.07	7.30	2.40	1.90	14.20	2.70	1.95	13.50
Computers	3.30	3.40	20.60	9.60	8.88	14.30	1.30	2.24	18.70	5.90	5.50	17.20
Steel	1.32	1.69	8.03	.36	.04	.87	2.16	2.29	4.97	.31	.19	4.04
Textiles	.86	.87	8.51	3.76	2.38	5.24	4.94	3.83	7.24	2.93	2.10	5.80
Rubber	2.18	1.99	19.27	4.66	3.21	4.50	1.84	1.50	14.11	2.42	1.95	14.23
Average	2.24	2.16	13.90	4.90	3.30	7.44	2.70	.70	11.40	2.90	2.10	11.10
Average	1.91	2.30	11.22	6.55	5.30	8.36	4.19	3.10	10.58	4.47	3.81	10.10

thirteen cases (tobacco is excluded) Only textiles and steel fail to show American firms as being the most profitable The Japanese are least profitable in seven of thirteen industries This poor showing is not so much due to the Japanese as it is to the poor performance of European firms in mining (where they registered an average loss for the entire thirteen year period), electronics (where ROA averaged 2 20%) autos (2 40%) computers (1 30%) steel (-2 16%) and rubber (1 84%) Overall the Japanese averaged ROA of 2 31 while American firms averaged 6 83 and European firms 4 27 Thus overall the Japanese averaged about half the profitability of European firms and about one third that of American companies Thus, the GIFS framework predictions appear to hold in 18 of 26 cases or about 70% of the time

A oneway ANOVA which includes Japanese European and American industries yields statistically significant results The F is 9 04 significant at the 001 level The ω^2 is an impressive 334 Contrasts between American and Japanese firms result in an F of 21 76 (df = 2, 13, p = 0001) and an ω^2 of 455 These results provide strong support for hypotheses three and four Planned contrasts tell the rest of the story The one tailed t test is 2 27 (df = 1 13) for American ROA significant at the 02 level For Japanese firms the results also confirm Hypothesis 3 the one tailed t=2 03 (df = 1 13 p = 05) Thus the inferential results tend to support hypotheses three and four American firms average the highest ROA while Japanese firms have the lowest average

Growth The industry level hypotheses with respect to growth are as follows

H5 Japanese firms will average the highest growth rates across industries [illegible] Japanese firms will average the highest growth rates for high leverage industries European firms for high risk industries and American firms for low leverage industries

Hypothesis 6 represents the core hypothesis of the GIFS framework Hypothesis 5 is the more common view of growth and is found in Lee and Blevins (1990) The two hypotheses do somewhat conflict and thus, pitting the two against each other does provide for a potential strong inference test of the GIFS framework

With respect to growth there are two hypotheses The first (H5) is that the Japanese will always be the industry growth leaders It is, after all their primary goal The second hypothesis (H6) operates at the industry structure level and offers a contingent perspective on growth American firms grow fastest in low leverage industries (where profits and growth are linked) Japanese firms grow fastest in high leverage industries (where capital intensity yields cost/price advantages), and European firms average largest growth in "high risk" industries (where the level of investment is high the return uncertain and where there is a need to maintain highly skilled labor intensive work forces) The results are discussed below

The Japanese have the highest growth rates for eight of thirteen industries Interestingly they have the highest growth rate in all six of the high leverage industries This means that they do not have the highest growth rates in a majority of the remaining industries Moreover the "average" in pharmaceuticals (high risk industry) is based on the performance of one niche player In chemicals the growth rate of the six Japanese niche firms exceeds that of the European giants Bayer Hoechst ICI and BASF

In contrast to H5, H6 uses the GIFS framework [illegible] Japanese success but only in the high leverage industries The two hypotheses differ in their predictions concerning low leverage and "high risk" industries Here the evidence supports the GIFS framework and H6 in "high risk industries the Europeans average the highest growth rate, 6 95 and lead in three of four cases (pharmaceuticals being the aforementioned exception) In low leverage industries American firms maintain the highest average (11 3% average annual growth) and lead in three of four cases with Europe leading in soaps and cosmetics Thus the GIFS framework correctly predicts in twelve of fourteen cases (85 7%) This is in contrast to the classical explanation which has the Japanese as the uniform growth leader (8 of 13 or 61 5%) Thus the descriptive data provides a prima facie case for accepting the GIFS framework as being a superior predictor of cross national differences in industry performance

Table 5 5 shows the results for Hypothesis 5 Just as Lee and Blevins (1990) found the Japanese are not uniformly significantly better at achieving sales growth than their triad counterparts

Table 5 5
Difference Between Japanese Growth and Average Growth of
American and European Firms on the Industry Level

Source	DF	MS	F	p
Difference	1	35 8	1 62	216
Error	24	22 1		

However, the results for Hypothesis 6 are much more encouraging Here the one tailed t-test yields a 2 68 significant at the 01 level

Given the rather small n (n=13), the results are quite encouraging (df = 1, 13 ω^2 = .27)

Summary Thus at the industry level the country differences predicted by the GIFS framework are all found to be statistically significant Give the small sample size at this level of aggregation (n averaging thirteen observations per cell) this result is quite encouraging However, the GIFS framework was intended to predict at lower levels of aggregation as well as demonstrate the pattern of international competition across nations For these results we need to next turn to a repeated measures ANOVA with industry structure and (country) government type fixed factors and firm years (1978-1990) being the repeated measure

GIFS Two Way Results

The core hypothesis of the GIFS framework is Hypothesis 6

H6 Japanese firms will average the highest growth rates for high leverage industries European firms for high risk industries, and American firms for low leverage industries

This contingent perspective suggests that strategies dictated by industry structure (specifically leverage) coalign with (strategies derived from corporate goals, time frames relative capital and labor intensities which tend to be similar within) generic economy types to produce a basis for international advantage vis a vis other generic economy types. This interaction should produce significantly higher average growth than exists in the nonaligned cells

Country and industry structure main effects In addition to the above interaction effect two other hypotheses both of which involve main effects are going to be examined within the context of the repeated measures design. The first concerns country differences and suggests that there will be significant differences in growth rates across nations. This is a common perspective, particularly the notion that Japanese growth will be (Hypothesis 5) significantly higher than other nations' growth rates. However, Lee and Blevins (1990) found that this was not the case. Moreover, the oneway ANOVA performed at the industry level failed to find significant country differences across industries. If there is some country effect, it will be dwarfed by the interaction effect.

Porter v GIFS. The next test is derived from the work of Porter (1980, 1985, 1986, 1990a) who suggests that industry structure is the key to understanding patterns of global competition. This is where the GIFS model perhaps differs the most from Porter's "diamond of advantage" (1990a). The GIFS framework suggests that industry structure, although important, will play a secondary role relative to the interaction of generic economy type and industry structure. In contrast, Porter would suggest that industry structure is the primary driver and while there are country and economic effects, Porter's "thick" description of the country by country variability found in Europe by Porter and his teams (1990a) would render it extremely unlikely that a "diamond of advantage" approach would lump all EC countries into a single common category. Industry structure is measured here by categorization based on leverage. This definition may quite likely not entirely fulfill Porter's view of industry structure. Thus, to some extent this is not a completely fair test of the difference between the two perspectives. However, given the data limitations, it was the best that could be done.

Repeated measure ANOVA results are in Table 5 6 While government type industry structure and their interaction are all statistically significant the interaction is clearly the strongest effect with an ω^2 of 275 almost three times larger than the ω^2 for industry structure (106) Government type only accounts for an ω^2 of 058 Thus the results of the ANOVA tend to strongly support the GIFS framework's contention that the interaction of government policy and industry structure drives the pattern of global business competition

Table 5 6
Repeated Measures Government Type by Industry Structure (1979-1990) as a Predictor of Sales Growth for Selected Firm Years

Source	DF	MS	F	p	ω^2
Government Type	2	55 16	6 22	01	058
Industry Structure	2	85 55	9 66	001	106
Government by Industry Structure	4	130 55	14 74	001	275
Error	99	17 68			
Total	107				

In order to see if the interaction in the ANOVA is precisely the interaction predicted in Hypothesis 6 four planned contrasts were performed First the three hypothesized cells were contrasted with the six remaining cells to see if the growth rates were significantly higher The resulting one tailed t-test was 4 26, significant at the 01 level Second, planned contrasts were done for each simple main effect for high leverage low leverage and high risk industries respectively The t scores were 3 54 ($p = 01$) 2 01 ($p = 05$) and 2 27 ($p = 01$) respectively all being significant at the 05 level Thus the data tend to strongly indicate that the interaction detected in the ANOVA [illegible] interaction specified in the core hypothesis

Regression The above analysis strongly supports the core hypothesis (Hypothesis 6) However the dependent measure firm year (average growth for all firms in a given government type by industry structure cell for a given year) severely reduces the intra cell variance thus, perhaps, inflating the explanatory power of the interaction Moreover, the GIFS framework purports to explain cross national patterns at the firm level not the firm year level The following pooled cross sectional time series analysis uses the actual firm observations in a dummy variable format in an effort to extend the explanatory power of the cost hypothesis to the firm level

Table 5 7 shows the dummy variable regression results (the residuals were stationary) of the government type (country) by industry structure interaction Hypothesis 6 once again holds explaining 19 3% of the variance ($n = 2004$ $p = 000$ $F = 4\ 61$) Moreover each of the industry structure level sample main effects also held High leverage ($t = 5\ 04$ $p = 000$ $n = 876$ $R^2 = 25\ 3$) low leverage ($t = 1\ 75$ $p = 042$ $n = 492$ $R^2 = 6\ 8$) and "high risk" ($t = 3\ 31$ $p = 002$ $n = 636$ $R^2 = 18\ 0$) industries each followed the pattern predicted by the GIFS framework Moreover, the regression analysis shows the magnitude of difference between the predicted superior performers and the remainder of the industry competitors On average the American low leverage firms had 1 01% more sales growth per year than their foreign rivals, the European high risk firms averaged 1 36 higher growth and the Japanese high leverage firms overwhelmed their competitors averaging over 6 00 percentage points higher per annum This outstanding performance is in large part attributable to the large number of European and American high leverage firms which experienced negative growth in the 1980s while the Japanese firms consistently performed in the low double digits All in all, these superior performers averaged over 2 percent higher growth per annum than their foreign rivals.

Table 5 7
Dummy Variable Regression Predictions
of Country by Industry Structure

Variable	n	b	t	p	R^2
Total*	2004	2 28	4 61	000	19 3
Constant		9 03			
JHL	876	6 02	5 04	000	25 3
Constant		6 87			
ALL	492	1 01	1 75	042	6 8
Constant		10 04			
EHR	636	1 36	3 31	002	18 0
Constant		7 91			

*Total is a dummy which includes JHL ALL EHR all regressed on the 2 004 observations

(JHL = Japan high leverage firms ALL = American Low Leverage Firms EHR = European High Risk firms)

Table 5 8 shows the results of including country (government type) and industry structure dummies along with the interaction variable (the residuals were once again stationary) As in Table 5 6 both country (t = [illegible], p < .003) (government type) and industry structure (t = [illegible], p = .05) are significant. The addition of these two variables raises the R^2 from 19.3 (Table 5.7) to 24.5 (Table 5.8). Thus, these two variables only marginally contribute to explaining patterns of cross-national sales growth.

Table 5.8
Dummy Variable Regression Predictions of
Country by Industry Structure, Country
and Industry Structure (n=2004)

Variable	b	t	p
Country	2.32	3.04	.003
Industry	1.67	1.97	.05
Country x Industry	3.14	4.07	.000
Constant	7.75		
R^2			24.5

Firm level synergies. Although the data presented so far lends support to the core hypotheses of the GIFS framework, it is possible, as it was pointed out in Chapter 3, to extend the logic of the GIFS framework's notion of coalignment down to the relative industry position of the firm. From this perspective it is possible to add a third layer: the firm's relative position in the industry. Firms are seen as being leaders, challengers, or niche players. By extending the logic of strategic synergies, American low leverage leaders, Japanese high leverage challengers and European high risk niche firms should be the best performing firms in the world. Naturally, opportunities for growth vary on an industry by industry basis and therefore these new predictions are once again relative

In addition to these perfect' strategic fits there are also firms which represent "near perfect" fits These include American niche firms in low leverage industries European leaders in high risk industries and Japanese niche firms in high leverage industries In each of the above cases, the country/industry structure coalignment is "perfect," and the relative industry position coalignment is compatible

There are two hypotheses to be derived from the above discussion

H7 American low leverage leaders Japanese high leverage challengers and European high risk niche players will have the highest (relative) rates of growth in the world

H8 American low leverage niche firms Japanese high leverage niche firms and European high risk leaders will also have above average (relative) growth rates

In addition to the above hypotheses because in low leverage industries profit and growth are linked it is also hypothesized that

H9 American low leverage industry leaders will exhibit the greatest (relative) ROA

Perfect fits Table 5 9 displays the average annual growth rates of the 167 firms grouped by country industry structure and relative industry position Table 5 9 exhibits the actual growth rates

According to Hypothesis 7 the three highest growth rates should be found in the American low leverage leaders (12 9%) the Japanese high leverage challengers (12 5%) and the European high risk niche players (11 2%) The actual three highest rates are the Japanese high leverage niche firms (15 06) the European high leverage niche firms (13 6) and the American low leverage leaders (12 9%) Thus the framework only predicts one out of three

Table [illegible]

Average Annual Growth Rate of Selected Firms by Country of Origin, Industry Structure, and Relative Industry Position

		Japan	America	Europe
Leader	High Leverage	X	7.80(16)	4.11(21)
	Low Leverage	X	12.90 (3)	8.57(13)
	High Risk	X	9.20(11)	7.56(17)
Challenger	High Leverage	12.50 (4)	1.70(22)	8.80(12)
	Low Leverage	3.83(23)	8.17(15)	11.60 (5)
	High Risk	X	6.97(19)	8.25(14)
Niche	High Leverage	15.06 (1)	9.60 (8)	13.60 (2)
	Low Leverage	5.10(20)	9.40(10)	11.30 (6)
	High Risk	9.50 (9)	7.12(18)	11.20 (7)

Near perfect fits. The GIFS framework, when extended to the intra-industry level, also suggests that three other classes of firms (the Japanese high leverage niche firms, the American low leverage niche firms and the European high risk leaders) will also exhibit superior relative performance. Once again, the raw numbers show growth rates of 15.06, 9.4, and 7.56 respectively, representing rankings of 1, 10, 16 out of 22 (five blank cells). Thus, the near perfect fits work only in the case of the Japanese high leverage niche firms. Additionally, there are other firm categories which perform above industry norms and are not predicted by the GIFS framework: European high leverage niche firms (11.6), European low leverage challenger and niche firms (11.6 and 11.3), and European high risk niche firms (11.2). Although the European high leverage niche firms might be explained away as being in the "prestige" markets and thus being able to neutralize the cost/price based dominant strategy of the industry structure, such conjecture is beyond the ability of this data set to test (data is aggregated at the corporate level; it would need to be at the product market level to test that proposition).

Lastly, Hypothesis 9 suggests that American low leverage leaders will have the highest average ROA among low leverage firms. Table 5.10 shows the results of the analysis. The American leaders do have the highest ROA just as the GIFS framework predicted.

Table 5.10
Average Annual ROA of Selected Low Leverage Firms by Country of Origin and Relative Industry Position

	ROA		
	Japan	America	Europe
Leader	X*	8.8	8.2
Challenger	3.8	7.4	8.6
Niche	2.8	7.6	5.8

*There were no Japanese global leaders in 1978

All in all, the accuracy for the GIFS framework at the firm strategy level is somewhat disappointing. Only two out of six near perfect and perfect fits perform as predicted. Thus, only two out of six predictions held. Given that seven of the twenty two cells are above the industry norm of 10.10, the framework predicts at only slightly better than chance. Thus, the results at this "third level" are somewhat disappointing relative to the earlier findings.

Intra-industry Results

The inferential results presented thus far tend to support the descriptive data findings: the CIFS framework seems to do a good job of predicting cross-national patterns of competition at the industry and industry structure levels. It is possible to extend the logic of coalignment to a third level, the relative industry position of a firm (whether a firm is a leader, challenger, or niche player). From this perspective, six types of firms are predicted to have statistically significantly better performance than the norm: American low leverage leaders (ALLL), Japanese high leverage challengers (JHLC), European high risk niche players (EHRN), American low leverage niche firms (ALLN), Japanese high leverage niche firms (JHLN), and European high risk leaders (EHRL). There are two hypotheses which are derived from the above discussion:

H10 The perfect strategic fits (ALLL, JHLC, and EHRN) should possess the highest b values.

H11 The near perfect fits (when country and industry structure coalign and relative industry position is compatible: ALLN, JHLN, EHRL) should each be statistically significantly higher than the other combinations.

The results are summarized in Table 5.11. The perfect strategic fits are all statistically significant while only the Japanese high leverage firms are significant among the near perfect fits. As for the magnitude predictions, two of the three perfect fits have the highest b levels; ALLLs has the fourth highest value. Four of six predictions are true with respect to significance and two of three are true with respect to the relative magnitude of growth. As such, 67% of the predictions at the third level of strategic fit appear to hold. It appears that the CIFS

Table 5 11
Dummy Variable Regression Showing the Relationship between Selected Three-Way Synergies and Relative Industry Growth 1978-1980

	b	t
ALLL^a	1 15	2 04^b
JHLC	1 43	5 84^c
EHRN	1 51	6 92^c
ALLN	92	1 08
JHLN	1 37	5 02^c
EHRL	1 01	1 37
R^2	11 90	

^{a}A (American), E (European) J (Japanese) LL (low leverage) HL (high leverage) HR (high risk) L (leader) C (challenger) N (niche)

^{b}t > 1 96 significant at the 05 level or above

^{c}t > 3 29 significant at the 001 level or above

framework seems to do a pretty good job at the country industry structure and firm strategy levels (relative firm resource) as well Strategic alignment between a firm s strategy dictated by its relative resource position in an industry (leader challenger niche) and industry structured generic economy type results in superior global performance at the firm level This 3 way interaction proved to be significant about 67% of the time

Last was the question of whether the hypothesized betas were statistically significantly higher than the betas for the remaining sixteen cells Table 5 12 displays the results Only European high risk niche firms (EHRN) have a beta that is statistically significant at the 05 level

Table 5 12
Statistical Significance of the Difference Between
Selected Betas and the Remaining Betas

	t (one tailed)	p
ALLL^a	81	491
JHLC	1 71	056
EHRN	1 93	035
ALLN	05	964
JHLN	1 52	078
EHRL	35	854

^{a}A (American) E (European) J (Japanese) LL (low leverage)
HL (high leverage) HR (high risk) L (leader)
C (challenger) N (niche)

Thus the GIFS framework does a pretty good job of predicting cross national patterns of competition among the 167 Fortune firms for the 1978-1990 time period at the industry structure level It performs much less well at the firm strategy level These predicted patterns manifest themselves among the largest firms in the world which constituted the bulk of global players within their respective industries These firms are arguably the best and most successful global firms in the world To obtain these results given the noise in the data provides strong support for the notion that at the government type by industry structure level the GIFS framework truly does a good job of predicting and explaining the patterns of competition among global firms in the emerging world economy

Notes

1 This disproportionate representation was considered a possible confound as it is in these industries that the Japanese are supposed to be the most competitive according to the GIFS framework However GIFS is a relative framework company performance across countries within the high leverage industries Japan has only 29% of the number of firms, slightly under the 33% that a truly random model would have predicted Thus, it is not a confound Moreover, GIFS predicts Japanese success in these industries and failure in all other industries Thus the high percentage produces prima facie support for the GIFS framework

2 Each of these numbers (4 3 20) is multiplied by 12 for cell totals of 48 36 and 240 These are quite large cell sizes for a typical ANOVA

3 Sales/factor (capital or labor) - intensity The higher the number the more productive the factor The lower the number the more intensive the factor

4 Tobacco is excluded because there were no Japanese tobacco companies

5 A firm year is the average percentage growth for a given year for all firms nested in a given generic government type and industry structure.

CHAPTER 6
CONCLUSIONS AND IMPLICATIONS

The GIFS framework purports to provide an integrative theory which seeks to explain the behaviors of international manufacturing firms in the emerging global economy across industries and between countries in terms of the "strategic fit" between their home government's public policies concerning capital and labor markets, the structure of the industries in which they operate, and the firm's size relative to all its international and domestic competitors. In the first section of this chapter, further interpretations of the results are provided within the context of the proposed framework and its underlying theory. This section parallels the preceding chapter in its discussion: country level findings are discussed first, followed by discussions of country x industry structure findings and country by industry structure x firm strategy findings. In the second section, limitations of this study are discussed and suggestions for future research are offered. The final section offers speculation about future prospects and challenges for the emerging global economy. The discussion begins with a summary of the GIFS framework as well as the empirical findings.

Conclusions

This dissertation is predicated upon the widely held notion that the 1990s are the decade of the emerging global economy and that a new corporate form, the global corporation, will replace its predecessor, the multidomestic corporation. Multidomestic firms tend to be characterized by three dominant traits. First, multidomestic firms develop individual business strategies on a country by country basis. Second, each country subsidiary is essentially an autonomous operation. Third, while corporate headquarters do coordinate certain functions, such as financial controls, each foreign subsidiary is viewed as an independent profit center with its own decentralized marketing plans and operations (Porter, 1986).

In contrast, the global corporation functions as a single integrated world system in which all business functions and operations are coordinated to advance overall global corporate strategies and objectives. Each major decision, ranging from component sourcing and site location to pricing strategies and profit targets, is centralized in the home office and is made from a global perspective. Global does not mean that a firm operates in every country in the world, but it does mean that it takes this centralized integrated perspective in the countries in which a firm does do business.

Two schools of thought have tended to guide the discussion concerning global corporations. The first perspective is perhaps best articulated by Kenichi Ohmae, director of McKinsey's Japanese operations. Ohmae (1990) is an advocate for a borderless world economy, one in which firms become stateless corporations independent of national origins or allegiances. This perspective is not new, it was articulated in Brown's 1964 *World Without Borders*, and can be seen as the *reductio ad absurdum* of "free trade" advocates who view governments as 'market distorters' or disrupters of trade and consumer welfare. Ohmae believes governments, through protectionism strategic trade policies and industrial policies [illegible] obstacles to growth and trade and restrict consumers choices This is a view with which most classical international trade economists would agree

The second and more recent view is well explained by Michael Porter Porter agrees with Ohmae that both corporations and market segments are becoming more global in nature Porter similarly welcomes this trend believing like Ohmae that the subsequent increase in competition has resulted in more consumer welfare better and more varied goods at lower prices However unlike Ohmae Porter (1990a) suggests that the trend toward an emerging global economy will increase rather than decrease a nation s importance in global competition Drawing heavily from (but not acknowledging) the "biological" models of trade Porter proposes that the conditions in a firm s home country are crucial to its competitiveness vis a vis foreign rivals Inexpensive communications computing and transportation have had the effect of speeding the spread of similar tastes standards and fashions to global market segments These homogenizing forces have lead to a "shrinking" world one in which it is vital for firms to be able to differentiate themselves from their competition Porter suggests that a major basis of this differentiation stems from innovation and innovation which as Porter (1990a) suggests appears to primarily occur in the home country Some countries have characteristics which allow specific industries to flourish These characteristics which "biological" modelers label as "phenotypes" include such factors as wealth population density resources (human capital and natural) educational systems culture etc Thus Porter argues that "clusters of excellence" take root in various countries National excellence creates a basis for competitive advantage By stressing na [illegible] maintaining national "virtues", firms can outperform their to [illegible] Thus for Porter global strategies merely augment the advantages [illegible] by the home country they do not supplant them Firms that abandon their national basis of advantage risk extinction

Porter's view is the minority and newer perspective Still these two competing views represent the mainstream of current thinking about the global corporation as well as the nature of global competition The emerging global economy is creating more intense competition as well as new configurations of firms and markets

This dissertation offered a third perspective Drawing from the disciplines of political science business strategy and marketing it was suggested that government plays a crucial role in global business competition not commonly articulated by economists that of creator of economies rather than that of "disrupter" of economies It was further suggested that by regulating home capital and labor markets four generic types of economy can result These economy types implicitly determine goals for corporations as well as help establish relative capital and labor productivity (vis-a-vis other economy types) Where synergies exist between these goals productivities and industry structure superior global performance results Thus superior global performance is to a large extent a consequence of human decisions rather than of factor abundance

This perspective was tested by examining 167 firms in 14 industries for the years 1978 1990 The overall results tended to support the core hypothesis that synergies between goal orientation productivities and industry structure result in superior performance

__Firm Level__. Although not part of the core coalignment theory presented here, it was speculated that additional benefits might result from a firm's intra industry position. If the resultant generic strategy dictated from the relative size of the firm coaligns with the more dominant economy type and industry structure, superior performance __vis a vis__ all firms might result. Many factors other than strategic coalignment can affect individual firm performance. This synergy merely augments the global strategy dictated by the core hypothesis; it does not supplant it. It is the icing, not the cake.

The results at the firm level were considerably more mixed. The perfect strategic fits appeared to work 'perfectly' with respect to statistical significance, but did markedly less well when compared to the remaining bases. The "next perfect" fits did not work at all; none of the three predictions held. Thus, the logic of coalignment does appear to have at best only very weak support at the firm strategy level and then only in the case of perfect alignments.

__Limitations of the Study__

In this section limitations of the study are discussed. The limitations stem from two general arenas: the selection of the sample and the assumptions underlying the GIFS framework. Each is discussed in some detail below.

__Data Sample__. The sample used in the analysis suffers from a number of shortcomings. First, the data used in the analysis presented here is essentially a convenience sample, rather than a randomly generated data sample. Fortune 500 data was used in large measure because it was the data set of choice for the vast majority of studies which attempt to test hypotheses concerning the nature of global business competitio [illegible] reason it was felt that the results of the analyses performed he[illegible] be more easily accepted if the data set was comparable to previously [illegible] data samples Nevertheless the sample is not random and hence the use of statistical significance tests is questionable as is the question of generalizability to larger populations For this reason I am somewhat reluctant to extend the findings presented here to smaller sized firms or to service industries I am less reluctant to extend the implications of the findings to other manufacturing industries such as ship building and/or airplane manufacturing providing the experience curves in such industries can be used to classify them This is because the analysis provides particularly at the country and country x industry levels good empirical support for the GIFS framework The framework performs markedly less well at lower levels of aggregation Second the Fortune 500 data is aggregated at the firm level rather than at the product market or strategic business unit level which is where competition generally takes place Thus the data is filled with "noise" That the framework performed as well as it did in light of this "noise" provides strong prima facie support for it Future research using SBU or product market level data could do much to enhance this support

Assumptions This dissertation is predicated upon three assumptions First the world is assumed to be unitary and homogeneous and therefore all firms included in the analysis are assumed to be global players Second the GIFS framework is a model of global strategy formulation Thus an implicit assumption of the model is that formulation determines performance the issue of strategy implementation is ignored This is done by assuming managerial expertise [illegible] assumed Each of these assumptions is briefly [illegible]

Assuming a unitary and homogenous global marketplace was necessary in order to use the data set However more importantly it was [illegible] necessary because the GIFS framework says nothing about such things [illegible] host countries subsidiaries and/or bilateral or regional trade agreements A challenge for future research will be to try to incorporate such "market distorting" mechanisms into the GIFS framework

The issue of strategy implementation was largely ignored in this dissertation The GIFS framework is essentially a formulation model That the framework ignores implementation and still predicts as well as it does at the country and industry level is a tribute to its robustness The framework's uneven record of prediction at lower levels of aggregation may in part be due to ignoring implementation issues However this speculation is far beyond the scope of this study

That firm strategies are assumed based on intra industry positions in 1978 rather than on some type of empirical observation is perhaps the most problematic of the assumptions Fortunately this assumption plays no role in the core hypotheses of the GIFS framework those concerning country and country x industry level predictions This assumption may also contribute to the relatively poor predictive validity of the GIFS framework at the firm strategy level

Given the crude nature by which firms are assigned their strategies (leader follower niche) it is rather remarkable that the framework does as well as it does Assuming that a firm s relative position in 1978 is going to accurately portray its strategic orientation (not to mention its relative position in 1990) for the entire thirteen year period may be reasonable. It may be that it holds only some of the time or for only some firms. Lastly, it is beyond the scope of the GIFS framework to suggest that firm level performance is solely a consequence of strategic alignments. Indeed, it was suggested in Chapter 3 that, as the data was disaggregated, the accuracy of the framework would lessen. The data appear to support this contention.

Future Research

In this section future research based on the GIFS framework is briefly discussed. The research can be roughly divided into two arenas. The first takes the framework and applies it to other contexts: service industries, SBU levels, industry segments, across business functions, within business functions and strategic alliances. The second discusses the implications of the GIFS framework for a host of issues: eastern Europe and the Soviet Union, third world economic development, and EC 1992. Each of these is briefly discussed below.

Applications. The GIFS framework as presented in this dissertation was used primarily to explain patterns of competition across countries for selected manufacturing industries. Currently I have begun a number of projects which attempt to take aspects of the framework and extend them to different contexts. Jeff Katz and I are extending the framework to a service industry, banking. In doing so, industry segments are identified and "strategic fits" between these industry segments and the three generic economy types are found and predictions generated (Katz & Scouthers, 1991). These predictions will be eventually tested with an international banking data base housed at the Federal Reserve. It should be possible to do similar types of studies for other service industries [illegible] such as insurance companies, hotels, or the airline industry. [illegible] prestige and first mover advantages were postulated as being the key driving factors in international manufacturing; it is at this point unclear what the key factors are for services.

Shannon Shipp and I are going to use PIMs data to examine the predictive accuracy of the GIFS framework at the SBU level. The problem with the PIMs data is its historical exclusion of Japanese firms, thus making it impossible to examine all of the core hypotheses. That is why it was not used for this dissertation.

David McCalman and I are using the GIFS framework to examine industry segments in the computer industry. Generic economy types coalign with key characteristics of industry segments to produce a basis for competitive advantage. The predictions thus generated are pitted against actual patterns of competition in the global computer industry (Brouthers, Friedrich & McCalman, 1991). The framework does a nice job of predicting emerging patterns of competition in the computer industry.

In a similar fashion the GIFS framework could be applied to patterns of competition in the emerging technologies arena (biotech, etc.). Such emerging technologies require differing time frames, levels of investment and manpower as well as promise differential rates of return and market growth. These characteristics should coalign with the attributes of the generic economy types to produce a national basis for advantage. The predictions generated could be compared to actual trends in these industries of the future.

Although the GIFS framework is in essence a model of corporate strategy the framework could also be used to suggest what type of marketing strategies human resource strategies and finance strategies are the most synergistic with the corporate strategy dictated by the GIFS framework Firms which actually follow strategies which coalign with the GIFS framework should perform better than those which do not Jeff [illegible] and I are currently working on using the GIFS framework to predict cross national differences in finance strategy Firms whose finance strategy coaligns with industry structure and economy type should be the best global competitors

Similarly, there are generic strategies which could be developed for specified domains within each of the business functions For instance Steve Werner and I have developed a propositional framework for compensation strategy (Werner & Sreuthers 1991) We suggest that there will be predictable cross national differences in compensation policies and practices Once again it would be desirable to see if firms which most closely correspond to the normative patterns perform better vis-a-vis their domestic rivals as well as their foreign competition

Lastly perhaps the fastest growing mode of entry into new markets is the strategic alliance It is possible that the GIFS model could be used to predict what types of strategic alliances are most likely to be the most successful and/or enduring The principle underlying this investigation would be strategic coalignment

Implications In addition to the GIFS framework being extended to the above context the framework has implications for a variety of issues The basic premise of the GIFS framework is that public policies and industry structures can align to produce superior performance There is no "best" economy type Each economy type (market production industrial democracy) produces its own global champions Only the command economy is markedly inferior to the other three economy types

This has direct implications for Eastern Europe the "Soviet Union" and third world economic development The GIFS framework suggests that global competitiveness is not so much a function of resources as it is public policies This implies that developing nations whether second or third world can do much to foster global competitiveness by developing public policies conducive to economic development This suggestion is not new However what is new is that the GIFS perspective offers three alternatives for development as opposed to current thought which all too often offers market economies as the only alternative to command economies

Each of the generic economy types is based on a certain perspective toward capital and labor markets For instance industrial democracies rely on skilled labor rather than capital to provide competitive advantage Eastern Europe and the "Commonwealth of Independent States" (former Soviet Union) have such a labor pool Third world countries are generally lacking in skilled labor but often have ample capital stemming from wealth being highly concentrated in the hands of a few elite Production economies offer a way to gain global advantage where skilled labor is scarce but capital is abundant

Eastern Europe and the Soviet Union for instance might be better off using an industrial democracy form of economy as a transition rather than moving directly to a market system Government retention and protection of key major industries while introducing market reforms int the rest of the economy, might reduce the hardships that current advice i wreaking on the Eastern European economies and peoples.

Similarly, Taiwan has emulated the production economy with suc great success that the US currently has a higher per capita trade deficit with Taiwan than with Japan. Malaysia and Indonesia are also beginning to adopt production economy reforms with amazing success. The Philippines on the other hand continues to follow market economy principles with disastrous results. Thus there is some evidence that third world countries can employ systems other than market economies more effectively than the conservative free market approach dictates.

The GIFS framework also has implications for EC 1992. If the framework is correct then it is the EC niche firms who are the best European global competitors. On average these smaller EC firms average higher rates of growth and profitability than their larger EC competitors (Porter 1990a). Yet the primary purpose of the EC reforms is to create a larger single market. A rationale for such a market is that it will lower costs and allow European giants to emerge which will be more able to compete with the American and Japanese giant firms. However if the GIFS framework is true there is no reason to believe this will occur. Firms grow based on home country public policy/industry structure synergies and not on the size of home markets. Making the market larger will not effect these coalignments. What will happen is while that certain European firms will prosper (the ones that currently prosper due to coalignments and/or first mover advantages) the firms that will primarily benefit will be the Japanese and American global giants whose coalignments will be able to take advantage of the new large single market [illegible] framework lower cost has not been a basis of advantage for European firms brand equity (or superior quality) has been the basis upon which most successful European firms have competed The single market will have the effect of lowering distribution and production costs these scale effects will primarily benefit firms whose strategies rely upon experience effects These firms are primarily the Japanese high leverage firms and to a lesser degree, American low leverage leaders Moreover lower production and transportation costs will have the effect of making the market more attractive to foreign direct investment And foreign direct investment is a good surrogate for a growing and permanent presence for foreign competition Thus my prediction is that the primary winners in EC 1992 will not be European firms but rather their foreign rivals

This prediction should not surprise a student of business history In the late 1950s the Common Market was formed The result as was pointed out in the first chapter was an exponential increase in foreign direct investment (primarily American) in Europe The early 1970s spurred in part by Servan Schreiber saw the European merger movement Small inefficient European firms were merged with other small European firms to create the large inefficient European giants who lost ground to their American and Japanese competitors in the 1980s Now the Europeans are about to embark on a third major economic reform which once again will benefit the larger firms (who have the resources to take advantage of the single market scale economies) at the expense of their smaller but more efficient domestic rivals The irony in this is that it is precisely these little firms which have been fueling whatever real growth the EC has achieved in the past decade (Porter 1990a) These successful European niche firms are about to face unprecedented competition from larger and better financed foreign rivals The results could be disastrous

Lastly the GIFS framework has implications for the theory of comparative advantage Rather than relative factor abundance being the driving mechanism the GIFS framework suggests it is the synergy between how factor usage is encouraged through public policies and industry structure which determines a basis for advantage If future research shows the GIFS framework to do a good job of predicting patterns of competition across industries and nations perhaps a "new" theory of comparative advantage might be formulated based on factor regulation rather than factor abundance

The Emerging Global Economy

One final thought concerns the nature of the emerging global economy Ohmae's (1990) view is basically how he believes things should and perhaps one day will be stateless corporations free trade free movement of capital and labor etc This is a view with which a majority of free trade economists would concur it is in this spirit upon which trade agreements such as the GATT are based It is however a more normative than descriptive view of the current international business environment

There are a second group of scholars such as Keegan (1989) who take a similar perspective They are however more descriptive than normative Keegan (1989) for instance suggests that what is currently happening in the international business environment is analogous to what happened in the national business environment a little over a century ago

In the late 19th century as national transportation and communication systems arose national firms emerged to compete with and eventually vanquish the original firms which had preceded them What is happening today is analogous argues Keegan Improvements in global transportation and communication networks are leading to the development of global corporations which will be able to outperform domestic and even multidomestic rivals due to the economies of scope and scale a global configuration provides Thus it is argued that a firm if it is going to survive into the twenty first century must "go global "

This perspective of the emerging global economy is essentially geocentric in nature Under such a system country of origin would largely become irrelevant as firms would compete for capital investors and customers on a global basis The GIFS framework in such an environment would provide no useful insights

This perspective however clashes with much of what is known about the nature of the global business environment From a polycentric perspective the emerging global marketplace is seen as one where nations play a major and increasing role where regional and bilateral trade agreements undermine the spirit of the GATT and where "fair trade" rather than "free trade" has become the rallying cry

Holder (1990) suggests that free trade as an ideal is no longer attainable Over one third of the foreign markets for American goods are covered by import restrictions and a large and growing percentage of world trade is being managed by governments (Holder 1990 p 99)

Moreover phrases such as 'level playing fields" and/or 'fair trade" have increasingly found their way into discussions of trade policy When positioned in this way, such demands sound reasonable [illegible]. All too frequently, however, such demands mask the [illegible] protectionism.

Even the free trade free market right wing rhetoric of the Reagan Administration proved to be just empty talk. Far from extending the principles of the GATT and free trade, the Reagan administration did just the opposite, resulting in the most protectionistic "White House" in the post war era. Under Reagan the 'free trader"

> ... the share of total imports subject to quota or other restraints rose from 12 percent to 23 percent. Protective schemes or agreements were imposed on markets for cars, machine tools, semiconductors, and carbon steel; tariffs were raised on motorbikes and specialty steel. Furthermore, President Reagan signed a trade bill that allows, even obliges, the government to use trade retaliation ("reciprocity" in the fair-trade lingo) in bilateral disputes, rather than settling them through the multilateral framework established by the GATT (Emmott 1989, p. 268).

Thus, one can see that the retreat from a free trade posture is not merely occurring abroad. The movement is alive and well right here in the USA. Moreover, it is interesting to note that the rise in protectionism in the USA coincided with a period of unprecedented economic growth, not a time of recession.

The "free trade" position currently articulated by the Bush Administration, although supported by the writings of Ricardo and others, has not been the historic position advocated by the United States. It was only in the period following the Second World War that America firmly and consistently became a staunch advocate of free trade. Moreover, adoption of the free trade position was not based on idealism, as some have suggested (Haider 1990), nor on the work of economists who built models to "prove" the benefits of free trade. Rather it was pragmatism which drove the conversion from pro[illegible] era America was preemi[illegible] trial power to survive with its capacity and infr[illegible] ing this period the USA accounted for as much as [illegible] of the world industrial output (Cleveland 1966) No wonder the American government strongly opposed the reintroduction of barriers to trade No wonder America championed multilateral arrangements like the "Atlantic plan [illegible] the GATT Free trade opens borders to the flow of goods and the USA was producing most of the world's goods Advocacy of free trade coaligned with American self interest

As the other industrial nations recovered in the post war period America's relative share of world GNP declined Although the United States still remains the world s largest economic entity to date it currently accounts for only about 25% of world GNP Moreover as of January 1 1993 the EC will become the world's largest economy entity with about 27% of world GNP Thus not only will US dominance of the world economy have disappeared but even American leadership will have evaporated Additionally Japan with about 13% of world GNP has been increasing its share of world GNP by over 2% per decade while the most optimistic estimates of US world GNP show it staying constant If current trends continue (and there is no reason to think they will) Japan will surpass the US economy in about fifty years leaving America a literal third rate economy [1]

Scenarios such as the ones above fuel the rising tide of protectionism and regional trade agreements both here and abroad From this perspective the logic of a North American free trading zone becomes [illegible]. The US-Canada free trade zone creates a world GNP region larger than the EC. Moreover, common language, economic and education [illegible] will allow rapid and easy economic integration, unlike the EC which faces a myriad of problems. With the addition of Mexico into the North American trade zone the USA secures a source of cheap labor and resources as well as enlarges its region's world GNP share. The only difficulty from a protectionist perspective is how to prevent Japan and Europe from also exploiting Mexican labor. The suggested solution is local content laws (another protectionist device) used to restrict access to the North American Market (Holder, 1990).

Thus one can see that there is a logic underlying the rise of bilateral and regional trade agreements, particularly from a perspective of American pragmatism. As American economic dominance eroded, the American businessman's commitment to free trade has eroded as well. Current government policy is directed toward maintaining and selectively enhancing global marketshare not by producing superior quality goods but rather by using government to maintain and enhance market opportunities. Thus the cry has changed from "free trade" to "fair trade," trade in which foreign firms cannot use home country advantages in capital markets, labor markets or technology to gain a basis for sustainable competitive advantage.

The scenario of trade zones appears at this juncture to be much more likely than the ones projected by Keegan (1989) or Ohmae (1990). For this reason, the GIFS framework is likely to remain a good predictor of patterns of competitive strategy in the 1990s because it is based on a polycentric rather than geocentric view of competition. Governments appear to becoming more involved in managing trade When capital labour and technology advantages are regulated away by governments the only basis for sustaining advantage becomes strategic synergies This trend I suggest will only enhance the national differences between firms And where these national differences coalign with industry structures superior global performance will result

Notes

1 One final point is in order While America as the global leader is not always loved it is rarely feared The same cannot be said of Japan If Europeans and Americans view an Asian trading block with Japan as the dominant power as inevitable similar to the emergence of European and American free trade zones Asians do not Such an idea is viewed as being somewhat between a fantasy and a nightmare for two reasons First Japan s brutal treatment of China Malaysia Korea and the Philippines during WW II is still widely remembered and resented Such nations will not voluntarily relinquish sovereignty to Japan Second and perhaps more important the Asian market is not large enough to meet Japan s export targets Japan will have to continue its westward expansion in order to meet these goals And given its track record that does not bode well for European or American competitors

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BIOGRAPHICAL SKETCH

Lance Eliot Brouthers has a Ph D in government from Florida State University a master's degree from Memphis State University and a B S from The Ohio State University He is the author of over twenty refereed articles His research centers on political economy issues Most recently he has focused on how government policies can be used as a basis of sustainable competitive advantage in the emerging global economy

I certify that I have read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Doctor of Philosophy

Alan Sawyer

Alan Sawyer, Chairman
Professor of Marketing

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Bert Weitz

Bert Weitz
J C Penney Professor of Marketing

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Kalyan Raman
Assistant Professor of Marketing

I certify that I have read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Doctor of Philosophy

Elias Dinopoulos
Associate Professor of Economics

This dissertation was submitted to the Graduate Faculty of the Department of Marketing in the College of Business Administration and to the Graduate School and was accepted as partial fulfillment of the requirements for the degree of Doctor of Philosophy

August, 1992

Dean, Graduate School